FILED
JAN 9 1992
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No. 91-1111

In the Supreme Court of the United States

OCTOBER TERM, 1991

HARTFORD FIRE INSURANCE CO., ET AL., PETITIONERS

v.

STATE OF CALIFORNIA, ET AL., RESPONDENTS

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

STEPHEN M. SHAPIRO
Counsel of Record
KENNETH S. GELLER
MARK I. LEVY
ROY T. ENGLERT, JR.
TIMOTHY S. BISHOP
Mayer, Brown & Platt
190 South LaSalle Street
Chicago, Illinois 60603
(312) 782-0600
Counsel for Petitioners

[Additional counsel listed on signature page]

WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

QUESTIONS PRESENTED

1. Whether domestic insurance companies whose conduct otherwise would be exempt from the federal antitrust laws under the McCarran-Ferguson Act lose that exemption because they participate with foreign reinsurers in the business of insurance.

2. Whether agreements among primary insurers and reinsurers on such matters as standardized advisory insurance policy forms and terms of insurance coverage constitute a "boycott" outside the exemption of the McCarran-Ferguson Act.

3. Whether state insurance departments' review and approval of proposed advisory insurance forms establish a "state action" defense to allegations under the antitrust laws that primary insurers and reinsurers conspired as to the terms of these standardized forms.

PARTIES TO THE PROCEEDING AND RULE 29.1 STATEMENT

This antitrust action originally was brought by the States of Alabama, Arizona, California, Massachusetts, Minnesota, New York, West Virginia, and Wisconsin. The litigation subsequently was joined by the States of Alaska, Colorado, Connecticut, Louisiana, Maryland, Michigan, Montana, New Jersey, Ohio, Pennsylvania, and Washington, and by a number of private plaintiffs, 14 of which appealed from the district court's adverse decision and thus were parties in the court of appeals (Ace Check Cashing, Inc.; Acme Corrugated Box Co.; Anastasios Markos T/A Municipal Exxon; Bay Harbor Park Homeowner's Association; Bensalem Township Authority; Big D Building Supply Corp.; Carlisle Day Care Center, Inc.; Durawood, Inc.; Environmental Aviation Sciences, Inc.; Jerry Grant Chemical Associates, Inc.; Keyboard Communications, Inc.; Carmella M. "Boots" Liberto T/A R.J. Liberto, Inc.; P & J Casting Corp.; and Henry J. Rosenfeld).

The 32 defendants are: (1) four primary insurance companies: The Aetna Casualty and Surety Company; Allstate Insurance Co.; Hartford Fire Insurance Co.; and Insurance Company of North America and its corporate parent, CIGNA Corp.; (2) Insurance Services Office, Inc. ("ISO"), a licensed property-casualty rating and advisory organization consisting of 1400 insurance companies participating in the United States; (3) six domestic reinsurance companies: Constitution Reinsurance Corporation; General Reinsurance Corporation; Mercantile & General Reinsurance Company of America; North American Reinsurance Corporation; Prudential Reinsurance Company; and Winterthur Reinsurance Corp. of America; (4) the Reinsurance Association of America ("RAA"), an association of domestic reinsurers; (5) 17 foreign reinsurers, including two individuals: Merrett Underwriting Agency Management Limited; Three Quays

Underwriting Management Limited; Janson Greene Management Limited; Edwards & Payne (Underwriting Agencies) Limited; C.J.W. (Underwriting Agencies) Limited; Murray Lawrence & Partners; Oxford Syndicate Management Limited; D.P. Mann Underwriting Agency Limited; J. Brian Hose and Others, Ltd.; Unionamerica Insurance Co., Ltd.; CNA Re (U.K.) Ltd.; Terra Nova Insurance Co., Ltd.; Excess Insurance Company Limited; Kemper Re (U.K.) Ltd.; Continental Reinsurance Co. (U.K.) Ltd.; Robin A.G. Jackson; and Peter N. Miller; and (6) one domestic and two foreign reinsurance brokers: Thomas A. Greene & Co., Inc.; Ballantyne, McKean & Sullivan, Ltd.; and R.K. Carvill & Co., Ltd.

The present petitioners are the above domestic primary insurance entities and their licensed rating organization, and the domestic reinsurance entities (including Thomas A. Greene & Co., the domestic reinsurance broker, but excluding Winterthur Reinsurance Corp.) and their trade association. Parent companies and subsidiaries (other than wholly owned subsidiaries) of petitioners are listed in App., *infra*, 100a.

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PETITION FOR A WRIT OF CERTIORARI

Petitioners, the domestic primary insurance and reinsurance entities identified above (see pages ii-iii, *supra*), respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-32a) is reported at 938 F.2d 919. The opinion of the district court (App., *infra*, 33a-88a) is reported at 723 F. Supp. 464.

JURISDICTION

The judgment of the court of appeals was entered on June 18, 1991. Timely petitions for rehearing were denied on October 15, 1991 (App., *infra*, 89a-97a). The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The statutory provisions are set out at App., *infra*, 98a-99a.

STATEMENT

In enacting the McCarran-Ferguson Act, Congress recognized that insurance is a unique industry. History attests, and Congress specifically found, that cooperation among insurers furthers the public interest and that the proper balance between competition and regulation is a subject appropriately left to the states. Accordingly, the Act provides an exemption from the federal antitrust laws for the "business of insurance to the extent that such business is * * * regulated by State Law" and does not involve any "boycott, coercion, or intimidation." 15 U.S.C. §§ 1012(b), 1013(b). In reliance on the McCarran Act, an elaborate scheme of state regulation of the business of insurance has developed.

Plaintiffs' theory of this case represents a frontal assault on the McCarran-Ferguson Act. Stripped of their pejorative characterizations, plaintiffs' complaints allege nothing more than agreements among primary insurers and reinsurers over the coverage risks they were willing to accept. Congress understood that such agreements are at the core of the business of insurance and thus are exempt from the antitrust laws under the McCarran-Ferguson Act. The court of appeals' rejection of the McCarran defense in these circumstances is flatly inconsistent with the statutory scheme and has thrown the insurance industry into turmoil. The confusion and uncertainty created by that ruling are further compounded by the court's rejection of the *Parker* v. *Brown* "state action" defense despite a state review process of unparalleled depth and thoroughness.

Both the court of appeals (App., *infra*, 8a) and the district court (*id.* at 35a) treated the relevant facts as undisputed. Those facts may be summarized as follows.

1. The Insurance Industry and General Liability Insurance

Defendants in this case include primary insurers and reinsurers. A primary insurer is an insurance company that sells insurance directly to policyholders. Reinsurance, in turn, is "insurance for insurers * * * whereby one insurance company, the reinsurer, agrees to indemnify another insurance company for a designated part of the insurance risks." Cal. Cmplt. ¶ 4(o). Reinsurers, both domestic and foreign, are an integral part of the insurance business. *Id.* ¶¶ 29, 34; App., *infra*, 8a-9a, 35a-37a.

Insurance Services Office, Inc. ("ISO"), is licensed or registered in all 50 states as a rating, rate service, or advisory organization and consists of approximately 1400 participating property and casualty insurers. Pursuant to state law, ISO is authorized to collect insurers' statistical data, to calculate advisory prospective loss costs and rates, and—of particular relevance here—to develop and file with state insurance departments advisory standardized policy forms that comply with state regulation. Cal.

Cmplt. ¶¶ 4(k), 38-39, 44; App., *infra*, 9a, 36a; Banfield Aff. ¶ 2.[1]

This case centers on so-called Commercial General Liability ("CGL") insurance policy forms. General liability insurance indemnifies business and governmental entities against bodily injury and property damage claims by third parties. ISO's advisory standardized forms are used for most general liability insurance policies, and ISO members account for most of the general liability insurance sold in the United States. Cal. Cmplt. ¶¶ 4(a), 38, 41; App., *infra*, 8a, 35a-36a.

General liability insurance traditionally has been written on "occurrence" policy forms, which provide liability coverage for injuries or damage occurring during the policy period regardless of when the claim is made. Occurrence policies have a "long tail" because some claims, such as those for certain environmental damage and asbestos-related injuries that have an extended latency period, can be submitted years or even decades after the policy has expired. By contrast, "claims-made" policies provide liability coverage for injury or damage claims made during the policy period (or any extension of the claims-reporting period) regardless of the date the injury or damage occurred. Claims-made policies are an established form of insurance and, even before 1984, were commonly used for various lines of insurance, such as medical malpractice and other long-tail coverage. Cal. Cmplt. ¶ 4(b), (c), (h); Banfield Aff. ¶ 6.

2. Development of the 1986 Forms and the States' Review

In 1977, ISO began a project to revise its 1973 CGL form. Cal. Cmplt. ¶¶ 4(l), 51-52, 55. In 1984, ISO proposed two new advisory forms—one, like the 1973 form, an occurrence form; and the other, as an alternative, a claims-made form. *Id.* ¶ 56; App., *infra*, 36a-38a. Both proposed 1984 forms continued provisions of the 1973

[1] In support of their motion for summary judgment, defendants submitted the uncontested affidavit of Carole Banfield, ISO's Senior Vice President of Government Relations.

form (1) covering claims relating to pollution and (2) providing that the insurance company would bear, in addition to the stated limits of coverage under the policy, the legal costs of defending against covered claims by third parties. Furthermore, the new claims-made policy, which did not include a "retroactive date" provision, covered claims made during the policy period for injury or damage arising out of any prior occurrence. Cal. Cmplt. ¶¶ 4(e)-(g), 53-54, 59-60.

ISO submitted the proposed 1984 forms to the insurance departments in all 50 states and recommended an effective date of November 1985 (later extended to 1986) to permit adequate consideration of the forms by state regulators, consumers, and other affected groups. Thirty-five states and the National Association of Insurance Commissioners ("NAIC") held public hearings on the forms and received the views of all interested parties, including primary insurers, domestic and foreign reinsurers, insureds, the general public, and consumer advocates. State attorneys general also submitted their views as to the impact of the forms on competition and consumer welfare. Moreover, the forms were widely discussed in the media and in open meetings within the insurance industry. App., *infra*, 37a-38a; Banfield Aff. ¶¶ 7, 9, 11-13, 16; Defendants' State-by-State Appendix.[2]

The state insurance departments undertook a thorough review of the proposed forms. In addition to public hearings, the insurance departments held continuing discussions with ISO, raised numerous questions concerning the rationale for and consequences of the proposed forms, and requested additional information. In particular, they focused on the issues that underlie plaintiffs' claims in this litigation: the appropriate triggering event for coverage, the retroactive application of the claims-made policy, the exclusion of pollution coverage, and the inclusion of defense costs within the policy limits. Banfield Aff. ¶¶ 8-11.

[2] The summary-judgment record contains defendants' five-volume appendix summarizing the states' insurance regulatory systems and forms review processes.

As a result of this extensive review process and of further discussions within the industry, ISO prepared four sets of revisions to the proposed forms between 1984 and 1986. The final revised forms provided (1) alternative occurrence and claims-made coverage options; (2) a retroactive date includable at the option of the insurer and the insured; (3) an exclusion for pollution-related losses from the basic form, with an optional "buy-back" endorsement for that form as well as separate specialized advisory policy forms for pollution risks; and (4) no change from the terms of either the existing 1973 form or the proposed 1984 forms that the insurance company would assume defense costs in addition to the dollar limits of the policy. Banfield Aff. ¶¶ 14-16, 21.

Before the final revisions in 1986, the proposed ISO forms were rejected by a number of states, including six states that are plaintiffs in this action or in which private plaintiffs reside. As ultimately amended, however, both forms were approved by 42 states, including 16 of the 21 states that are relevant to this litigation.[3]

In reviewing the forms, the state insurance commissioners weighed the competing contentions and determined whether the proposed forms were in the public interest. For instance, the Connecticut Insurance Commissioner concluded that "the insurance industry has fairly demonstrated a need for a Claims Made form of insurance, specifically in long tail types of commercial coverage." Banfield Aff., Exh. N (Conn.), at 12. Similarly, the Illinois

[3] Plaintiffs California and Colorado had no procedure for expressly approving proposed forms, but they did have authority to disapprove forms and took no action to disapprove the CGL forms. App., *infra*, 38a. Only plaintiffs Massachusetts and New Jersey declined to approve either of the 1986 CGL forms; in those states the 1973 form continued to be used, as supplemented by state-approved endorsements to the 1973 form that include limitations on pollution coverage identical to those in the 1986 forms. (Massachusetts in 1989 and New Jersey in 1990 approved the 1986 occurrence form.) Four other states—plaintiff New York, and Nebraska, Texas, and Vermont—disapproved the 1986 claims-made form but approved the 1986 occurrence form. *Ibid.*; Banfield Aff. ¶¶ 17, 19-20.

Insurance Commissioner concluded that "[t]his new policy form filing presents a new approach at a time when the market place is in desperate need of a new tool to break the intolerable boom and bust cycle which has dominated liability markets for decades." *Id.*, Exh. N (Ill. (1/27/86)), at 3. In this process, the views expressed by foreign reinsurers during the development of the forms and the potential impact of the claims-made form on the availability of occurrence policies were matters of public record and were specifically discussed by a number of state insurance commissioners. *E.g.*, *id.*, Ex. N (Conn.), at 3-4; Ex. S (N.Y.), at 2, 9, 10, 12.

In July 1987—more than a year after the approved 1986 forms had become effective—ISO discontinued its data-collection and risk-estimation support services for the superseded 1973 CGL form (except in the two states where neither of the new forms had been approved). Cal. Cmplt. ¶ 99; App., *infra*, 38a.

3. Plaintiffs' Boycott Allegations

In 1988, the attorneys general of 19 states filed complaints alleging violations of Section 1 of the Sherman Act, 15 U.S.C. § 1. The crux of the allegations was that defendant primary insurers had opposed various features of ISO's 1984 proposal and had conspired with defendant domestic and foreign reinsurance entities to obtain changes in the proposed forms. Such changes, if adopted, would have restricted general liability insurance coverage written on the proposed forms by (1) eliminating occurrence policies in favor of claims-made policies; (2) including a retroactive-date provision in the claims-made form by which the parties would agree to exclude coverage for occurrences prior to that date; (3) eliminating pollution coverage; and (4) including defense costs within policy limits. Cal. Cmplt. ¶¶ 61, 74. Plaintiffs also alleged that various defendants conspired to limit the terms of reinsurance written for domestic primary insurers in an effort to eliminate the occurrence policies and pollution coverage available under the state-approved 1986 forms

and endorsements. *Id.* ¶¶ 87, 92, 96, 110; Conn. Cmplt. ¶¶ 91, 96, 100, 114.

In order to accomplish these objectives, the complaints alleged, defendants engaged in concerted activity to cause (1) the modification of ISO's proposed 1984 forms to conform to defendants' desired terms; (2) the withholding of reinsurance for primary insurance subsequently written on other terms; and (3) ISO's eventual discontinuance of statistical support for the superseded 1973 CGL form. Cal. Cmplt. ¶¶ 51-100; Conn. Cmplt. ¶¶ 55-104. This conduct was alleged to constitute acts of "boycott, coercion, or intimidation" within the meaning of the boycott exception to the McCarran Act's antitrust exemption for the business of insurance.[4]

4. The District Court's Decision

Accepting plaintiffs' factual allegations as true and taking all disputed facts and factual inferences in plaintiffs' favor (App., *infra*, 35a), Judge Schwarzer dismissed the complaints. With respect to the McCarran-Ferguson Act, the district court first held that the alleged activities of the defendants, including the foreign reinsurers, constituted the "business of insurance" and were "regulated by [s]tate [l]aw." *Id.* at 46a-50a. The court alternatively concluded that, even if the foreign reinsurers' activities were not subject to state regulation and

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[4] As relief, plaintiffs sought a radical restructuring of the general liability insurance business. In particular, notwithstanding state insurance departments' approval of the revised 1984 forms to replace the 1973 form, plaintiffs requested that ISO be enjoined to re-issue the originally proposed 1984 forms but as amended by a number of new provisions added by plaintiffs. Cal. Cmplt. ¶ 163. Furthermore, despite the McCarran Act's authorization of joint insurer activity in setting rates, terms, and conditions of insurance, plaintiffs asked for stringent limitations on communications between and among insurers and reinsurers. *Id.* ¶¶ 159, 170-172. Plaintiffs also urged major revisions in ISO's operation and governance, including prohibiting defendants "from participating on any board or committee of ISO for five years" (*id.* ¶ 167) and requiring ISO's Board of Directors to consist of a majority of "public-interest members as appointed by the Court" (*id.* ¶ 168).

therefore were not exempt from the federal antitrust laws, the exemption of the domestic primary insurers and reinsurers was not "lost as a result of [their] joint action with non-exempt entities." *Id.* at 47a n.13.

The district court further held that plaintiffs failed to allege a boycott within the exception to antitrust immunity under the McCarran-Ferguson Act. App., *infra*, 50a-58a. "Stripped of their pejorative allegations" (*id.* at 43a), plaintiffs' complaints "charge no more than an agreement to restrict coverage." *Id.* at 52a. As a matter of law, the court concluded, defendants' alleged "agreements relating to the terms on which the participants were willing to write insurance and reinsurance" (*id.* at 55a) did not constitute a boycott.

Finally, the district court held that, entirely apart from the McCarran-Ferguson Act, summary judgment was appropriate on the forms development claims under the "state action" doctrine of *Parker* v. *Brown*, 317 U.S. 341 (1943). Applying the standard announced in *California Retail Liquor Dealers Ass'n* v. *Midcal Aluminum, Inc.*, 445 U.S. 97 (1980), Judge Schwarzer determined that the states at issue (1) "have clearly articulated and affirmatively expressed policies permitting collective policy form development activities" (App., *infra*, 59a), and (2) have "actively supervise[d]" the standardized insurance forms, and their decision to approve or disapprove the proposed forms "protect[ed] * * * the public interest" against the alleged conspiracy. *Id.* at 61a-62a.

5. The Ninth Circuit's Decision

The Ninth Circuit reversed the district court's dismissal of the complaints. App., *infra*, 1a-32a. The court of appeals did not dispute that the district court had "accepted all the facts alleged by the plaintiffs" (*id.* at 14a) and had assumed "plaintiffs' allegations * * * as true." *Id.* at 17a. In addition, the court of appeals agreed with the district court that all of the challenged conduct involved the "business of insurance" (*id.* at 18a) and that the domestic primary insurance and reinsurance entities "are

subject to regulation by the states." *Id.* at 20a. Nevertheless, the court of appeals overturned the district court's legal conclusions on three grounds.

First, finding that the foreign reinsurers' activities were not regulated by the states and hence were outside the McCarran-Ferguson exemption, the court of appeals held that petitioners' "immunity was lost when they conspired with the foreign defendants." App., *infra*, 20a. According to the court, the controlling rule of law under the McCarran Act is that "[m]embership of an exempt entity in a conspiracy with nonexempt entities makes the exempt entity liable." *Ibid.* Thus—even though petitioners, as domestically regulated insurance entities, were "prima facie immune" under the Act (*ibid.*), and even though the foreign reinsurers were part of the "business of insurance" (*id.* at 18a)—petitioners forfeited their antitrust immunity when they participated with foreign reinsurers in the collective development of advisory standardized insurance forms.

Second, as an "independent ground" of decision (App., *infra*, 20a), the court of appeals held that plaintiffs' complaints alleged a boycott within the McCarran Act's exception to antitrust immunity. The defendant primary insurers engaged in a boycott, the court concluded, because "they enlisted the reinsurers to * * * use[] their economic power, their refusal to reinsure, to force ISO and its recalcitrant members to accept the terms Hartford and its allies wanted." *Id.* at 22a, 24a.

Third, the Ninth Circuit concluded that the state action doctrine was not satisfied here. The court neither applied the *Midcal* criteria nor attached any weight to the intensive scrutiny that the forms received from the states. Instead, it dismissed the state action defense out of hand with the observation that the states did not supervise or approve "the boycotts used to produce agreement on the forms." App., *infra*, 26a.

REASONS FOR GRANTING THE PETITION

This case presents questions of exceptional legal and practical importance. The Ninth Circuit's decision is both unprecedented and manifestly incorrect. By opening the door to federal antitrust oversight of accepted insurance practices within the regulatory purview of state insurance departments, the decision below will irreparably upset the careful accommodation between federal and state law that Congress deliberately embodied in the McCarran-Ferguson Act. The McCarran Act was designed to "free[] the insurance business of antitrust rules that would reduce it to a shambles." R. Posner & F. Easterbrook, ANTITRUST 1046 (2d ed. 1981). The court of appeals' ruling results in precisely the "shambles" that Congress intended to prevent.

As commentators have recognized, this case is "the most far-reaching national antitrust lawsuit since the one that led to the 1984 breakup of American Telephone and Telegraph Co." [5] Plaintiffs themselves have conceded as much; for example, Lloyd Constantine, then-Chief of Antitrust Enforcement for plaintiff State of New York, acknowledged in congressional testimony that this "is the biggest and most important civil case now pending in the United States." [6] State attorneys general have described the action as " 'a nuclear attack on the insurance industry' " [7] for the avowed purpose of " 'restructur[ing] the industry.' " [8] Significantly, the state attorneys general brought this litigation without the concurrence (or in many instances even the knowledge) of their state insurance commissioners [9] and only after the U.S. Department of Justice had rejected the suit.[10]

The Ninth Circuit's ruling is of enormous importance and has disrupted the most basic operations of the insurance industry. As one of plaintiffs' counsel candidly admitted, insurers now "have to 'take a serious look at some of their *routine* business practices.' " [11] "Lawyers on both sides of the case agree [that] the litigation has the power to shake the insurance industry to its foundations." [12] This case has "a chilling effect on insurers' willingness to cooperate with one another" [13] and "presents difficult problems not only for the defendants but also for the insurance industry as a whole." [14]

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[5] Kriz, *Insurers in Their Sights*, 1988 NAT'L J. 2595, 2598.

[6] *Hearing Before the Subcomm. on the Consumer of the Senate Committee on Commerce, Science and Transportation on Federal Trade Commission and International Antitrust Laws*, 101st Cong., 2d Sess. 24 (1990).

[7] Adler, *Drawing Battle Lines: Activists Declare War on Insurers*, BUS. INS., Aug. 8, 1988, at 1, quoting former West Virginia Attorney General Charles G. Brown.

[8] Kriz, 1988 NAT'L J. at 2598, quoting former Massachusetts Attorney General James M. Shannon. See also *An Avalanche of Lawsuits Descends on Insurers*, BUS. WK., Apr. 11, 1988, at 60, quoting former West Virginia Attorney General Charles G. Brown (" 'We really want structural change in the insurance industry * * *. It's really a nuclear attack' ").

[9] See Bradford, *Antitrust Suits a Political Ploy: Ex-Regulators*, BUS. INS., Apr. 11, 1988, at 1.

[10] See Cox, *No Insurance Conspiracy Found: States' Antitrust Suits Questioned*, NAT'L L.J., Aug. 14, 1989, at 3, 9. The overwhelming consensus among informed observers, including the Department of Justice, is that the so-called "insurance crisis" of the mid-1980s was not and could not have been caused by any conspiracy or boycott of the sort plaintiffs allege. See, *e.g.*, U.S. Dep't of Justice, Tort Policy Working Group, *An Update on the Liability Crisis* 5, 97 (Mar. 1987); U.S. Dep't of Justice, Antitrust Division, *The Crisis in Property-Casualty Insurance* 1 (1987); Priest, *The Antitrust Suits and the Public Understanding of Insurance*, 63 TUL. L. REV. 999 (1989); Winter, *Perspectives on the Insurance Crisis: The Liability Crisis and the Dynamics of Competitive Insurance Markets*, 5 YALE J. ON REG. 455 (1988).

[11] Stansky, *Massive Insurance Suit Alive and Well*, CONN. L. TRIB., June 24, 1991, at 17, quoting New Jersey Deputy Attorney General Laurel Price (emphasis added).

[12] *Ibid.*

[13] Greenwald, *Attorneys General's Actions May Cripple ISO: Observers*, BUS. INS., Mar. 28, 1988, at 1.

[14] *A Whole Industry is Watching*, BUS. INS., July 1, 1991, at 8.

The court of appeals' first holding was that the domestic insurance industry defendants, even though otherwise entitled to antitrust immunity under the McCarran-Ferguson Act, forfeited their exemption by allegedly engaging in joint activity with foreign reinsurers to establish terms and conditions of insurance. Such collaboration with foreign reinsurers is—and was in 1945, as Congress specifically recognized—an integral and essential part of the business of insurance that is subject to state regulation. Domestic insurers and reinsurers must of necessity confer on regulated insurance matters with other parties whose activities are not directly regulated by the state; foremost among these are representatives of policyholders, corporate risk managers, and insurance agents. The Ninth Circuit's decision thus condemns insurers' necessary and unexceptionable contacts with foreign reinsurers and casts a cloud over their continued consultations with consumers and other groups.[15]

The court of appeals' boycott ruling has equally immediate and harmful consequences. The conduct alleged in this case centers on agreements among companies involved in the business of insurance concerning terms and conditions of insurance coverage. Prior to the ruling below, it was unquestioned that such joint agreements were, as Congress contemplated, essential to the regulated business of insurance and thus insulated from the federal antitrust laws. Under the Ninth Circuit's decision, however, the insurance industry and state regulators no longer can rely on that settled understanding. What is more, the court's opinion provides *no* meaningful standards to distinguish permissible joint activities from im-

[15] A number of states, including several plaintiff states, expressly authorize insurance companies to "act in concert with each other *and with others*" in developing insurance forms and rates. See Defendants' State-by-State Appendix 25, 39, 50, 57, 99 (emphasis added). The court of appeals' decision frustrates these state authorizations—and jeopardizes such collaborative activities by ISO and insurance companies—whenever those "other[]" entities are not themselves directly regulated by the state.

permissible boycotts, thereby supplanting certainty and predictability with confusion and burdensome litigation in an area where stable legal rules and advance planning are essential.

Of equally great concern, the court of appeals' decision eviscerates the state action defense. The Ninth Circuit did not dispute that the state insurance departments subjected the proposed CGL forms to rigorous scrutiny. In that process, the states unquestionably were on notice of (1) the foreign and domestic reinsurers' expressed views of acceptable reinsurance risks and (2) the economic implications of the new forms for the insurance market—precisely the two factors that comprise the boycott alleged by plaintiffs in this lawsuit. If state insurance commissioners had shared plaintiffs' concerns, they had ample authority to protect the public interest by disapproving the forms or invoking state unfair insurance practices remedies. In these circumstances, this Court's review is necessary to ensure that state officials with the responsibility and expertise to further state regulatory policy, rather than overburdened federal courts and lay juries applying the general standards of the antitrust laws, exercise ultimate authority over—and bear ultimate accountability for—the supervision of regulated industries.

By plaintiffs' own admission, this suit is " 'the mother of antitrust-type cases.' " [16] If the Court denies review, further proceedings promise to be expensive and protracted, costing tens of millions of dollars and leaving the insurance industry in a state of paralyzing uncertainty for many years. This Court has recognized that such burdensome litigation must be carefully scrutinized and resolved before trial whenever possible. See, *e.g.*, *Matsushita Elec. Indus. Co.* v. *Zenith Radio*, 475 U.S. 574 (1986). The district court faithfully followed that admonition, holding as a matter of law that plaintiffs'

[16] Weber, *Reversal of Fortune*, INS. REV., Sept. 1991, at 7, 8, quoting California Deputy Attorney General Thomas Greene.

complaints failed to allege a cognizable antitrust claim. The Ninth Circuit, disagreeing as to the controlling rules of law, reversed. In light of the immediate adverse consequences of the court of appeals' decision for the entire insurance industry, this Court's review plainly is warranted.

I. DOMESTIC INSURERS AND REINSURERS DO NOT FORFEIT THEIR McCARRAN-FERGUSON IMMUNITY BY PARTICIPATING WITH FOREIGN REINSURERS IN THE BUSINESS OF INSURANCE

The court of appeals initially held that the domestic insurance industry defendants forfeited their McCarran-Ferguson immunity by engaging in joint activity with foreign reinsurers who, the court concluded, were not themselves subject to state regulation and thus were not exempt under the Act. According to the court, "[m]embership of an exempt entity in a conspiracy with non-exempt entities makes the exempt entity liable," and therefore "the domestic defendants' immunity was lost when they conspired with the foreign defendants." App., *infra*, 20a. That erroneous ruling frustrates Congress's explicit intent and cannot be squared with this Court's decision in *Union Labor Life Ins. Co.* v. *Pireno*, 458 U.S. 119 (1982). See J. von Kalinowski, *Ninth Circuit Reinstates Massive Insurance Antitrust Litigation Involving Reinsurance*, ANTITRUST REPORT 1, 4-5 (Aug. 1991) (criticizing this aspect of the Ninth Circuit's decision). In effect, the decision below repeals the McCarran-Ferguson immunity whenever domestic insurance entities engage in deliberations and agreements with foreign reinsurers (or other non-regulated entities).[17]

Communication and agreement among primary insurers and reinsurers, including foreign reinsurers, are a neces-

[17] Plaintiffs have recognized that this is "'[o]ne of the most intriguing legal aspects of the opinion'" and have emphasized that it means "'the shield is down on everything the companies did. All their activities, not just boycotting, have become available for antitrust screening.'" Weber, INS. REV. at 8, quoting California Deputy Attorney General Thomas Greene.

sity in the business of insurance. It is undisputed that reinsurance is essential to the primary insurers' conduct of their business. See Cal. Cmplt. ¶¶ 29, 34. Furthermore, plaintiffs acknowledge that foreign reinsurers provide a principal portion of the reinsurance for general liability risks in the United States. See *id.* ¶ 30. Because "[t]here is not enough capital or capacity in any one country," reinsurance "is, of necessity, a highly international business." Thompson, *Critical Issues of the Eighties: How Trends in Reinsurance Will Affect Legal, Legislative, and Regulatory Actions*, 16 FORUM 1038, 1045 (1981). Against this background, it is evident that the normal operations of the business of insurance require that domestic primary insurers be free to confer and agree with foreign reinsurers no less than with domestic reinsurers over the terms and conditions of insurance.

Such communication and agreement fall squarely within the terms of the McCarran-Ferguson Act. By its plain language, the Act applies to "the business of insurance to the extent that such business is * * * regulated by State Law." 15 U.S.C. § 1012(b). The preceding paragraph makes clear, as the court of appeals recognized (App., *infra*, 18a), that foreign reinsurers are integral to the business of insurance. Furthermore, as plaintiffs themselves allege (Cal. Cmplt. ¶ 34), agreements between primary insurers and foreign reinsurers affect the terms and conditions of primary insurance, which are subject to the plenary regulatory authority of the states. States thus can—and in this case did—review and limit or disapprove any terms that they find anticompetitive or otherwise not in the public interest.

The court of appeals fundamentally erred by ignoring the express text of the Act, which provides antitrust immunity for the regulated "business of insurance" rather than for particular regulated entities. See, *e.g.*, *SEC* v. *National Sec., Inc.*, 393 U.S. 453, 459 (1969) (the McCarran Act's "language refers not to the persons or companies who are subject to state regulation, but to laws 'regulating the *business* of insurance'") (emphasis

added by Court). It is a distortion of the statute to analyze questions of immunity, as the court below did, in terms of the identity of the entities involved; the relevant inquiry is not whether a defendant is a so-called "nonexempt entit[y]" (App., *infra*, 20a) but whether the antitrust challenge relates to the "business of insurance."

For this reason, the court of appeals was incorrect in its reading (App., *infra*, 20a) of *Group Life & Health Ins. Co.* v. *Royal Drug Co.*, 440 U.S. 205 (1979), and in its complete disregard of *Union Labor Life Ins. Co.* v. *Pireno*. In *Royal Drug*, this Court referred to the involvement of *non-insurance* entities as one reason why the challenged activities did not constitute the "business of insurance"—an element of the McCarran exemption that the Ninth Circuit conceded was satisfied here (App., *infra*, 18a). As this Court subsequently explained in *Pireno*, "the involvement of such parties * * * [is] not dispositive" of McCarran-Ferguson immunity and merely "constitutes part of the inquiry." 458 U.S. at 133. In fact, flatly contrary to the decision below, *Pireno* explicitly ruled that challenged activities are "not [to] be denied the [McCarran-Ferguson] exemption *solely* because they involve parties *outside the insurance industry*." *Ibid.* (second emphasis added). See von Kalinowski, ANTITRUST REPORT at 5 ("[T]he correct analysis does not focus narrowly on the players. The proper question to decide is whether the exempt entities are still engaged in the business of insurance. The relevant players are but one part of this determination"). The Ninth Circuit, by contrast, focusing entirely on the identity of "the players," erroneously held that regulated domestic insurance entities lose their McCarran-Ferguson immunity for the "business of insurance" if they act in concert with a non-regulated entity.

Consistent with the plain language of the McCarran Act and this Court's reading of the statute in *Pireno*, the legislative history confirms that Congress fully understood the important role of foreign reinsurers in the

business of insurance and clearly intended that domestic insurers' joint activities with foreign reinsurers be exempt from antitrust challenge. To begin with, Congress recognized that reinsurance is "a very essential phase of the [insurance] business" and "represents a clear illustration of the necessity for uniform rates and agreement upon rates in advance." 90 Cong. Rec. 6528 (1944) (statement of Rep. Miller).

> Uniformity, and knowledge in advance of what rates and policies will be, is desirable for the public, and is necessary in the functioning of insurance companies and organizations. *This is particularly true in the case of reinsurance* * * *. No company could safely agree in advance to reinsure, unless it knew what the terms of its obligation would be* and the consideration therefor. Lack of agreement in advance would therefore be detrimental to public service by insuring companies.

H.R. Rep. No. 873, 78th Cong., 1st Sess. 9 (1943) (emphasis added). Thus, "effective reinsurance is necessary if the companies are to serve the public" and requires "agreement upon rates in advance." Senate Comm. on the Judiciary, *Committee Print on S. 1362—Insurance* (pt. 1), 78th Cong., 1st Sess. 5 (1943) (statement of Rep. Hancock). Congress also recognized that foreign reinsurers would play a major role in the reinsurance of U.S. policies. For example, Senator O'Mahoney noted that many reinsurance companies had their headquarters in Europe and that "[t]here is a close association * * * between the American insurance companies and the British insurance companies * * * [.] They sit down together and make rules and regulations, forms, and rates." *Joint Hearing Before Subcomms. of the Committees on the Judiciary on S. 1362, H.R. 3269, and H.R. 3270*, 78th Cong., 1st Sess. 265, 269 (1943).

The Ninth Circuit's focus on "nonexempt entities" not only clashes with the language and history of the McCarran-Ferguson Act, but also diverges from decisions of other circuits. In *Zelson* v. *Phoenix Mut. Life*

Ins. Co., 549 F.2d 62, 67 n.7 (8th Cir. 1977), for example, the court of appeals recognized that "the injection of a non-insurance entity into an alleged scheme does not necessarily remove the scheme from the protection of the McCarran-Ferguson Act." Similarly, in *Lowe* v. *Aarco-American, Inc.*, 536 F.2d 1160, 1162 (7th Cir. 1976), the court ruled that "the fact that neither appellee is an insurance company does not take the disputed transaction outside the scope of the 'business of insurance.'" The court of appeals' decision thus is at odds with the prevailing law that the insurance industry and state insurance regulators have long followed.

In sum, the Ninth Circuit's patently erroneous ruling nullifies the purposes of Congress and wreaks havoc in the insurance industry. This Court's intervention is urgently needed to restore the federal-state balance intended by Congress in enacting antitrust immunity for the business of insurance.

II. AGREEMENTS AMONG INSURERS AND REINSURERS ON TERMS AND CONDITIONS OF INSURANCE DO NOT CONSTITUTE A "BOYCOTT" OUTSIDE THE ANTITRUST IMMUNITY OF THE McCARRAN-FERGUSON ACT

Although the McCarran-Ferguson Act was enacted almost a half-century ago and has been much litigated since, this Court has decided only one case interpreting the boycott exception to the Act's antitrust immunity: *St. Paul Fire & Marine Ins. Co.* v. *Barry*, 438 U.S. 531 (1978). In the last 14 years, the lower courts have struggled to apply *Barry* without further guidance from this Court, and the Ninth Circuit's decision in this case exacerbates the existing division among the courts over the controlling legal standard for the boycott exception. Because of the critical importance of the erroneous decision below and the existence of a conflict on the legal issue presented, this Court's review is warranted.[18]

[18] Commentators have recognized the uncertain state of the boycott exception. See, *e.g.*, P. Areeda & H. Hovenkamp, ANTITRUST LAW 122 (Supp. 1991) ("[t]he implications of [*Barry*] are not clear"); 6 J. von Kalinowski, ANTITRUST LAWS & TRADE REGULATION 47-45 to 47-46 (1991) ("*Barry* did not resolve some important issues concerning the definition of the words 'boycott, coercion, or intimidation,'" and "[l]ower courts have struggled with the issues left open by *Barry*"); American Bar Association, Section of Antitrust Law, ANTITRUST LAW DEVELOPMENTS (SECOND) 637 (1984) ("[l]ower courts * * * have divided over the precise scope of [the boycott exception]"). Following *Barry*, moreover, "[a]n avalanche of cases has descended on the federal courts. * * * [*Barry*'s] apparent gap in the McCarran dike has been seized upon quickly in an attempt to use federal courts to regulate the insurance business." Kimball & Heaney, *Emasculation of the McCarran-Ferguson Act: A Study in Judicial Activism*, 1985 UTAH L. REV. 1, 46-47. *Barry* has thus given unintended "comfort to those seeking to substitute federal court litigation under the antitrust laws for state regulatory surveillance." *Id.* at 46 n.171.

While the McCarran Act expressly provides that immunity from the Sherman Act is inapplicable to any agreement or act of "boycott, coercion, or intimidation" (15 U.S.C. § 1013(b)), it nowhere defines the concept of "boycott." In *Barry*, the Court stated that "Congress intended this language to be read in light of * * * the body of decisions interpreting the Sherman Act," which condemn efforts to pressure a party with whom one has a dispute "by withholding, or enlisting others to withhold, patronage or services from the target." 438 U.S. at 541. At the same time, however, the Court recognized that not "all concerted activity violative of the Sherman Act comes within" the boycott exception. *Id.* at 555. That acknowledgment addressed the concern of the dissenting Justices that an expansive reading of "boycott," giving it "the same scope it has in Sherman Act case law, * * * would plainly devour the broad antitrust immunity bestowed by" the McCarran-Ferguson Act. *Id.* at 559 (Stewart & Rehnquist, JJ., dissenting). In response, the majority stressed that the term "boycott" in the McCarran Act is *not* "coextensive with the prohibitions of the Sherman Act" and in particular that joint insurance agreements, "*in the absence of any additional enforcement activity*, * * * [*are not to be*] *treated* * * * *as 'a boycott.'*" *Id.* at 545 n.18 (emphasis added).

The Court in *Barry* also repeatedly emphasized that the conduct at issue—which consisted of an agreement to refrain from competition for customers in a given area, *not* an agreement on forms or terms of insurance—represented an absolute refusal to "deal on any terms." 438 U.S. at 544, 552. Because defendants completely refused to deal and "did not simply fix rates or terms of coverage * * * [, they] effectively barred St. Paul's policyholders from all access to alternative sources of coverage and even from negotiating for more favorable terms elsewhere in the market." *Id.* at 544. As a result, defendants' territorial allocation was much more broadly restrictive of competition than an agreement on rates and terms, since it "effectively foreclos[ed] all possibility of competition anywhere in the relevant market" and "denied policyholders the benefits of competition in vital matters [beyond rates and terms] such as claims policy and quality of service." *Id.* at 553.

In line with the understanding of both the majority and the dissent in *Barry*, courts consistently have held—until this case—that an agreement on rates or terms and conditions of insurance is not a McCarran Act boycott. As Judge McGowan explained:

> Since a construction of the boycott provision to encompass a simple rate-fixing [or term-setting] agreement would indeed emasculate the Act's antitrust exemption, it is reasonable to infer that * * * something in the way of enforcement activity would be required to make out a claim of "boycott, coercion, or intimidation" within the meaning of the Act.

Proctor v. *State Farm Mut. Auto. Ins. Co.*, 561 F.2d 262, 274 (D.C. Cir. 1977), vacated in light of *Royal Drug*, 440 U.S. 942 (1979); see also, *e.g.*, *In re Workers' Compensation Ins. Antitrust Litig.*, 867 F.2d 1552, 1556, 1561 (8th Cir. 1989); Areeda & Hovenkamp at 122. The Ninth Circuit, by contrast, found a boycott based on agreements among defendant primary insurers and reinsurers, at the alleged instance of the primary insurers, as to acceptable

terms and conditions of insurance and reinsurance. See pages 24-25, *infra*. The decision below thus creates a square conflict on a central issue under the McCarran Act: whether joint agreements over terms and conditions of insurance are immune activities or unprotected boycotts.

In addition, courts have recognized that a protected agreement does not become a non-immune boycott simply because it has adverse economic consequences for competitors. See, *e.g.*, *Ocean State Physicians Health Plan* v. *Blue Cross*, 883 F.2d 1101, 1109 n.9 (1st Cir. 1989) (boycott exception does not "include situations where options have not been entirely closed off to the allegedly coerced parties, even though such options may have been made more expensive"); *Proctor*, 561 F.2d at 275 ("economic pressure" on competitors to accede to an agreement does not constitute "the degree of coercive enforcement activity required to convert mere cooperation or concert of action into 'boycott, coercion, or intimidation'"). The district court followed the reasoning of these decisions, holding that a joint agreement is not a boycott simply because it creates "economic exigencies" for competitors that may cause them to offer the same terms. App., *infra*, 57a; see also Areeda & Hovenkamp at 123 (Judge Schwarzer correctly held that "[a]lthough the alleged effect was that some insurers who may have wanted to provide the 'broader' coverage found it more expensive to do so, this was the inherent effect of agreements among the insurers and re-insurers as to the services they themselves would provide"). Once again, however, the Ninth Circuit disagreed with this line of authority and reversed the district court, stating that a boycott can arise because of the economic consequences of an otherwise immune agreement. See App., *infra*, 24a-25a.

Finally, the district court and the court of appeals differed on the legal significance of the absence in this case of an absolute refusal to deal upon any terms. Relying on *Barry*, the district court ruled that "refusals to do business except upon terms acceptable to defendants" are

not boycotts; "[w]hat the McCarran Act leaves unprotected is conduct which goes beyond the making and implementation of agreements to do business only on terms acceptable to the participant * * *, such as refusals to deal on any terms." App., *infra*, 52a, 57a-58a. The court of appeals, by contrast, held flatly that a boycott does not require a total refusal to deal on any terms. See *id.* at 23a. Other courts similarly have reached divergent results on this issue. Compare, *e.g.*, *In re Workers' Compensation Ins. Antitrust Litig.*, 867 F.2d at 1567, and *Grant* v. *Erie Ins. Exchange*, 542 F. Supp. 457, 465 (M.D. Pa. 1982), aff'd mem., 716 F.2d 890 (3d Cir. 1983), with *Virginia Academy of Clinical Psychologists* v. *Blue Shield*, 624 F.2d 476, 484 (4th Cir. 1980). Indeed, the law in this area is so confused that commentators, in acknowledging a conflict, disagree over the majority rule in the lower courts. Compare American Bar Association, *Report of the Commission to Improve the Liability Insurance System* 54 n.10 (1989) ("[m]ost cases require a refusal to deal on any terms"), with 9 E. Kintner & J. Bauer, FEDERAL ANTITRUST LAW 245 (1989) ("the large majority of cases have held that an absolute refusal to deal is not required").[19]

The correct rule of law should be drawn from the history and purposes of the McCarran-Ferguson Act. The Act in general, and the boycott exception in particular, were drafted and adopted in the context of the prosecution and eventual decision of this Court in *United States* v. *South-Eastern Underwriters Ass'n*, 322 U.S. 533 (1944) ("*SEUA*"). The operative phrase "boycott, coercion, or intimidation" was taken directly from this Court's opinion in *SEUA* (322 U.S. at 535, 562). See *Barry*, 438 U.S. at 561 (Stewart & Rehnquist, JJ., dissenting) ("[b]efore

[19] This pervasive disarray on the boycott issue is illustrated by the conflict between the Ninth Circuit's decision and *UNR Industries, Inc.* v. *Continental Ins. Co.*, 607 F. Supp. 855, 862-863 (N.D. Ill. 1984), which holds that an alleged conspiracy among insurance companies and ISO to change from an occurrence policy to a claims-made policy is not a boycott under the McCarran Act.

announcement of the Court's opinion, the phrase 'boycott, coercion, or intimidation' had appeared in none of the lengthy debates or numerous legislative proposals in Congress from September 1943 to May 1944"). Accordingly, the statutory provisions are properly read against the background of *SEUA*.

Significantly, although an agreement on rates was charged in *SEUA*, the Court did *not* describe that conduct as part of the alleged boycott. See 322 U.S. at 535 (emphasis added) ("[t]he conspirators *not only* fixed premium rates and agents' commissions, *but employed boycotts* together with other types of coercion and intimidation"). Furthermore, the boycott in *SEUA* involved a *complete* refusal to deal and, as in *Barry*, broadly eliminated *all* competition among insurers, not just competition over rates and terms of coverage. See *ibid.* (emphasis added) ("[t]he conspirators * * * employed boycotts * * * to compel persons who needed insurance *to buy only from S.E.U.A. members*"). These circumstances strongly suggest that a "boycott" is not established by agreements among insurance industry members over terms of coverage that, unlike an absolute refusal to deal, fall short of an exclusion of competitors from the market.

This conclusion is confirmed by the subsequent evolution of the McCarran-Ferguson Act. The legislative history makes clear that Congress did not regard joint agreements on rates or terms as a boycott but rather intended to immunize such agreements from the federal antitrust laws. As Congress understood, "the experience of the States" showed that "the method of doing business which is required by the antitrust laws is not the method which is best suited to the special nature of the insurance business." 89 Cong. Rec. 10661 (1943) (statement of Rep. Miller). See also, *e.g.*, 90 Cong. Rec. 6419 (1944) (statement of Rep. Allen) ("the States have found that cooperation in insurance, with uniformity in price and terms of protection, is essential in the public interest"); *id.* at 6536 (statement of Rep. Howell) ("[t]he States * * *

long ago determined that methods of cooperation and joint action were preferable for this * * * unique type of business").

Within this statutory scheme for joint insurance activities, Congress intended the boycott exception to prevent the kinds of abuses that had occurred in *SEUA*. As Representative Celler explained in reconciling the broad antitrust immunity with the limited boycott exception, insurance companies were to be allowed "to come together and confer and arrange for rates, *but all companies should be permitted entrance to such a conference.* * * * There must be no boycott, no coercions, no economic sanctions." 90 Cong. Rec. 6560 (1944) (emphasis added).

Under this analysis, the Ninth Circuit's decision cannot stand. The court of appeals found a boycott based on nothing more than collective agreements among insurers and reinsurers as to the coverage risks they would be willing to accept. It is nowhere claimed that the challenged agreements reflect anything other than the business judgment and economic self-interest of each defendant insurer and reinsurer. Nor is it alleged that defendants engaged in a total refusal to deal on any terms or that competing insurance companies were absolutely excluded from the market, thereby depriving consumers of the benefits of competition on *all* elements of insurance coverage and service. Rather than being a prohibited boycott, the alleged agreements on terms and coverage are at the heart of the Act's antitrust immunity for the business of insurance.

The Ninth Circuit sought to avoid this controlling rule by asserting that petitioners "are charged with much more" than "confer[ring] and agree[ing]" on terms of insurance. App., *infra*, 21a. However, in each instance the cited action amounted to no more than an agreement as to the insurability of risks and the terms and conditions of insurance coverage. For example, the alleged "coercion" of ISO to modify its proposed 1984 forms was, at bottom, simply the economic consequence of the asserted agreement among defendant insurers and reinsurers over

the terms of coverage they would underwrite; the alleged "coercion" of other primary insurers to use the claims-made form likewise was merely the effect of petitioners' agreement on coverage risks and insurance terms. Compare App., *infra*, 51a-57a with 21a-23a. That such agreements are characterized with derogatory rhetoric and darkly described in specific detail does not transform them from protected joint activity into unprotected boycotts under the McCarran-Ferguson Act. See, *e.g.*, *Pennsylvania ex rel. Zimmerman* v. *PepsiCo, Inc.*, 836 F.2d 173, 179-180, 182-183 (3d Cir. 1988) (citing cases). Nowhere in the Ninth Circuit's decision or in plaintiffs' submissions below has any alleged boycott activity been identified that does not reduce to agreements regarding terms and conditions of insurance. If pejorative and conclusory labels are sufficient to defeat insurers' antitrust immunity —and such labels are all that support the ruling below— then McCarran immunity is a dead letter.

Commentators have recognized both the incorrectness and the far-reaching implications of the Ninth Circuit's boycott decision. In the words of one leading scholar:

> [A] strong argument could be made that the defendants were actually agreeing on coverage issues. *The Ninth Circuit failed to meaningfully articulate guidance* on how to distinguish between agreements on coverage and terms and other understandings. Based on the opinion, *there is a serious question that the Ninth Circuit has broadened "boycott" to encompass activities which concern the terms and conditions of insurance.*

Von Kalinowski, ANTITRUST REPORT at 5 (emphasis added). Such criticism of the court of appeals' ruling, which directly implicates the fundamental operation of the business of insurance and the core protection of the McCarran-Ferguson Act, is compelling evidence of the need for this Court's review.

III. THE NINTH CIRCUIT'S STATE ACTION RULING DEFEATS PRINCIPLES OF FEDERALISM BY ALLOWING FEDERAL ANTITRUST COURTS TO SECOND-GUESS THE STATE REGULATORY PROCESS

As a distinguished commentator has noted, "[t]he ultimate consequence of heedless application of the antitrust laws to state regulatory schemes could well be a crisis in federalism not dissimilar to that created by the Supreme Court in the 1930's." Verkuil, *State Action, Due Process and Antitrust: Reflections on* Parker v. Brown, 75 COLUM. L. REV. 328, 330 (1975); accord Easterbrook, *Antitrust and the Economics of Federalism*, 26 J.L. & ECON. 23, 24 & n.4 (1983). Untroubled by federalism concerns, the Ninth Circuit rejected the district court's holding that this case involves a classic application of the state action doctrine of *Parker* v. *Brown*, 317 U.S. 341 (1943). In a lawsuit as sweeping as this one—which is premised on the attorneys general's expressed view that "'[s]tate [insurance] regulation is clearly lousy'"[20]—the court of appeals' error in such a sensitive area of federalism merits this Court's review.

The Ninth Circuit's decision allows a federal antitrust lawsuit to become the vehicle for overturning state officials' approval of insurance forms. According to the court, although the states authorized collective forms development and approved the forms here, the state action defense fails because the states did not approve the alleged "boycotts used to produce agreement on the forms." App., *infra*, 26a. That reasoning is sorely defective. Whether the forms should be disapproved because of the process by which they were developed is a matter that, in our federal system, is left to the *states* to resolve.

The activities at issue here satisfied the state action test set out in *California Retail Liquor Dealers Ass'n* v. *Midcal Aluminum, Inc.*, 445 U.S. 97, 105 (1980). First, because state law authorized collective forms development, petitioners acted "pursuant to a 'clearly articulated and affirmatively expressed state policy' to replace competition with regulation." *Hoover* v. *Ronwin*, 466 U.S. 558, 569 (1984). It is of no moment that defendants allegedly engaged in activities beyond those authorized by the states: "A private party acting pursuant to an anticompetitive regulatory program need not 'point to a specific, detailed legislative authorization' for its challenged conduct. As long as the State as sovereign clearly intends to displace competition in a particular field with a regulatory structure, the first prong of the *Midcal* test is satisfied." *Southern Motor Carriers Rate Conference* v. *United States*, 471 U.S. 48, 64 (1985).[21]

Second, the states' "active supervision" of the CGL forms was the antithesis of the kind of deferential, process-oriented review deemed insufficient in *Patrick* v. *Burget*, 486 U.S. 94, 104-105 (1988). Unquestionably, it was the state agencies and not private parties that had "ultimate control" (*id.* at 101; see *Southern Motor Carriers*, 471 U.S. at 51) over the insurance forms that were offered to the public. The proposed forms were submitted to every state in 1984, were the subject

[20] Adler, *Drawing Battle Lines: Activists Declare War on Insurers*, BUS. INS., Aug. 8, 1988, at 1, 77, quoting former West Virginia Attorney General Charles G. Brown.

[21] This Court and the courts of appeals have rejected the argument that a lack of compliance with state law precludes a finding of "clear articulation." *City of Columbia* v. *Omni Outdoor Advertising, Inc.*, 111 S. Ct. 1344, 1349-1350 (1991); *Interface Group, Inc.* v. *Massachusetts Port Auth.*, 816 F.2d 9, 13-14 (1st Cir. 1987) (Breyer, J.); *Llewellyn* v. *Crothers*, 765 F.2d 769, 773-774 (9th Cir. 1985) (Kennedy, J.). The rationale of these decisions is that it would contravene the very federalism principles that *Parker* serves for federal courts to adjudge whether the parties have violated state law. Thus, in this case, the undisputed fact that the relevant states prohibit coercion and boycotts (see App., *infra*, 61a-62a) is, as the district court recognized, strong *confirmation* that the state regulators (whom the *Parker* doctrine protects) have the tools they need to deal with any alleged misconduct.

of continuous discussions with state regulators through 1986, and were addressed both at public hearings and forums before insurance regulators in 35 states and at meetings of the NAIC. Banfield Aff. ¶¶ 4, 8, 10, 11. Reinsurers participated fully in these public discussions. *Id.* ¶¶ 9, 16. Far from rubber-stamping the forms, the regulators examined them and in many instances either modified them directly or disapproved them until modifications were made. Thus, the state agencies made substantive determinations of conformity with state policy. *E.g.*, *id.*, Ex. N (Conn.), at 12 ("The undersigned [state insurance commissioner] is satisfied that the insurance industry has fairly demonstrated a need for a Claims Made form of insurance * * *. However, the changes which are being required prior to approval of such a policy form within this State are essential if the interests of the public are to be protected"). This is a paradigm of *active* supervision.

Like the court of appeals in *City of Columbia*, the Ninth Circuit invented an exception outside the *Midcal* test to overcome a "prima facie entitle[ment] to *Parker* immunity." 111 S. Ct. at 1350. Without any allusion to *Midcal*, the Ninth Circuit rejected the state action defense with the observation that "state approval of one activity is not state approval of a related but distinct activity." App., *infra*, 26a.

That observation might have merit in a case where there are truly two distinct activities at issue. But this case involves nothing of the sort: the states approved the challenged insurance forms after full substantive review, and the purportedly "distinct" activity was part and parcel of the process by which the forms were developed and submitted for approval. In this context, *Parker* precludes federal courts from second-guessing a state insurance commissioner's decision to approve proposed forms that allegedly were the product of anti-competitive conduct.

There is no question in this case that the two concerns that are the gravamen of plaintiffs' forms development claims—the expression of views by reinsurers during the forms development process as to the coverage risks they would accept, and the potential impact of the claims-made form on occurrence coverage—were evident in both the state review process and the open debates and media coverage in the insurance industry.[22] Nor is there any question that such considerations were within the purview of the state review process. Indeed, a number of regulators took notice of the reinsurers' views and specifically commented on the above two issues.[23] Finally, it is indisputable that state insurance commissioners had ample corrective powers under state law—for example, by disapproving or requiring amendment of the proposed forms, or by invoking state unfair insurance practices remedies—to protect the public interest from the harm alleged by plaintiffs. In fact, to this day, state attorneys general remain free to seek relief from state insurance departments based on their antitrust allegations. There is no justification for plaintiffs to resort to a federal antitrust lawsuit—in a severely overcrowded federal court system—to air charges that can and should be resolved through the state insurance regulatory process.

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[22] See Banfield Aff. ¶¶ 9-10, 13, Ex. G. In seeking approval of the forms, ISO itself called attention to the reinsurers' role. *E.g.*, *id.*, Ex. I. Media articles further discussed the role of reinsurers in the development of the claims-made form and the market implications of that form. See, *e.g.*, Nolan, *New Liability Form Draws Skepticism*, J. Com., July 29, 1985, at 1A (statement by Lloyd's of London to state insurance regulators that "unless the U.S. industry was permitted to adopt the new form, the Lloyd's reinsurance market would discontinue backing American underwriters"). State attorneys general also participated in the review process and could have addressed —and in fact did address—the economic consequences of the reinsurers' expressed views and the proposed forms. *E.g.*, Banfield Aff., Ex. F (June 12, 1985, Comments of Attorney General Robert Abrams to the State of New York Insurance Department.)

[23] *E.g.*, Banfield Aff., Ex. N (Conn.), at 3-4; Ex. S (N.Y.), at 2, 9, 10, 12.

Ultimately, the state action doctrine is rooted in the proper allocation of decisionmaking responsibility between federal judges and juries in antitrust cases and politically accountable state agencies with substantive expertise in the regulated area. See *City of Columbia*, 111 S. Ct. at 1352 (*Parker* "was not meant to shift" value judgments about the public interest "from elected officials to judges and juries").[24] The doctrine therefore has properly been described as a kind of "inverse preemption." Easterbrook, 26 J.L. & ECON. at 25. In this case, there is no reason to prefer federal antitrust review—"*ex post facto* judicial assessment of 'the public interest'" (111 S. Ct. at 1352)—to the established system of state regulation that expressly authorized collective forms development, reviewed the forms in detail, and was fully capable of dealing with any "boycott" allegations that were or could have been brought to the attention of state regulators.[25]

CONCLUSION

The petition for a writ of certiorari should be granted.

[24] See also Elhauge, *The Scope of Antitrust Process*, 104 HARV. L. REV. 667, 707 (1991) (because of state agencies' superior ability to judge the public interest, "the best that antitrust courts can do is channel decisions about" deviations from market competition "into a disinterested, politically accountable process"); Verkuil, 75 COLUM. L. REV. at 334 ("[a]t the core of the *Parker* doctrine are higher policies of federalism and judicial economic neutrality which counsel against intervention in state regulatory decisions").

[25] This case presents a useful complement to *FTC* v. *Ticor Title Insurance Co.*, cert. granted, No. 91-72. In *Ticor*, the Third Circuit held that the adequacy of the state's review process is not to be adjudicated by a federal antitrust court in the guise of applying the state action doctrine. The Ninth Circuit's ruling rests on a related but analytically distinct ground; the court below rejected the state action defense not because it faulted the quality of the states' review, but rather because it believed that the forms development process—and specifically the alleged "boycott" based on agreements among insurers and reinsurers over terms and conditions of insurance—was simply outside the states' review and approval. Together, *Ticor* and this case afford the Court the opportunity to harmonize this important and frequently litigated area of antitrust law.

Respectfully submitted.

Of Counsel:

RONALD A. JACKS
HOPE G. NIGHTINGALE
Mayer, Brown & Platt
190 South LaSalle Street
Chicago, IL 60603
(312) 782-0600

STEPHEN M. SHAPIRO
Counsel of Record
KENNETH S. GELLER
MARK I. LEVY
ROY T. ENGLERT, JR.
TIMOTHY S. BISHOP
Mayer, Brown & Platt
190 South LaSalle Street
Chicago, Illinois 60603
(312) 782-0600

RICHARD E. SHERWOOD
RICHARD G. PARKER
THOMAS E. DONILON
O'Melveny & Myers
400 South Hope Street
Suite 1500
Los Angeles, CA 90071
(213) 669-6000

BARTLETT H. McGUIRE
DOUGLAS I. BRANDON
JOEL M. COHEN
Davis Polk & Wardwell
1300 I Street, N.W.
Washington, DC 20005
(202) 962-7000

WILLIAM A. MONTGOMERY
WILLIAM M. HANNAY
MARCI A. EISENSTEIN
KEVIN D. EVANS
Schiff Hardin & Waite
7200 Sears Tower
Chicago, IL 60606
(312) 876-1000

JAMES S. GREENAN
JOHN P. MAKIN
Cooper, White & Cooper
201 California Street
San Francisco, CA 94111
(415) 433-1900

JOHN G. HARKINS, JR.
ELEANOR MORRIS HILLOWAY
Pepper, Hamilton & Scheetz
3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103
(215) 981-4000

RICHARD DE SAINT PHALLE
Crosby Heafy Roach & May
Professional Corporation
1999 Harrison Street
Oakland, CA 94612
(415) 763-2000

PAUL E. GLAD
Sonnenschein Nath & Rosenthal
685 Market Street
San Francisco, CA 94105
(415)882-5000

ROBERT N. SCHIFF
PETER O. GLAESSNER
Fisher & Hurst
Four Embarcadero Center
San Francisco, CA 94111
(415) 956-8000

DAVID L. FOSTER
GREGORY L. HARRIS
Willkie Farr & Gallagher
One Citicorp Center
153 East 53rd Street
New York, NY 10022
(212) 935-8000

FRANK ROTHMAN
Skadden, Arps, Slate, Meagher & Flom
300 South Grand Avenue
Los Angeles, CA 90071
(213) 687-5000

TIMOTHY E. CARR
Carr & Mussman
Three Embarcadero Center
Suite 1060
San Francisco, CA 94111
(415) 391-7112

ALAN H. SILBERMAN
STUART ALTSCHULER
Sonnenschein Nath & Rosenthal
8000 Sears Tower
Chicago, IL 60601
(312) 876-8000

MARK F. HORNING
Steptoe & Johnson
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-8126

ROBERT B. GREEN
Irwin, Kerr, Green, McDonald & Dexter
250 West Pratt Street
Suite 1123
Baltimore, MD 21201
(301) 659-5757

STEPHEN M. AXINN
SHEPARD GOLDFEIN
MICHAEL L. WEINER
PATRICIA DOBBERSTEIN
Skadden, Arps, Slate, Meagher & Flom
919 Third Avenue
New York, NY 10022
(212) 735-3000

JOHN DEQ. BRIGGS
JAMES M. BURNS
Howrey & Simon
1730 Pennsylvania Avenue, N.W.
Washington, DC 20006
(202) 783-0800

KENT R. KELLER
Barger & Wolen
530 West 6th Street
9th Floor
Los Angeles, CA 90014
(213) 680-2800

LEWIS A. KAPLAN
ALLAN BLUMSTEIN
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019
(212) 373-3000

EUGENE F. BANNIGAN
CHRISTINE C. BURGESS
Lord Day & Lord, Barrett Smith
1675 Broadway
New York, NY 10119
(212) 969-6000

ROBERT M. MITCHELL
JEFFERY ANNE TATUM
Seyfarth, Shaw, Fairweather & Geraldson
101 California Street
Suite 2900
San Francisco, CA 94111
(415) 397-2823

JANUARY 1992

APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos. 89-16405, 89-16513 to 89-16531

IN RE INSURANCE ANTITRUST LITIGATION

ACE CHECK CASHING, INC.; ACME CORRUGATED BOX COMPANY, INC.; ANASTASIOS MARKOS, t/a MUNICIPAL EXXON; BAY HARBOR PARK HOMEOWNER'S ASSOCIATION, INC.; BENSALEM TOWNSHIP AUTHORITY; BIG D BUILDING SUPPLY CORPORATION, *et al.*,

Private Plaintiffs,
Plaintiffs-Appellants,

and

STATE OF ALABAMA, *et al.*,

Plaintiffs,

v.

AETNA CASUALTY AND SURETY COMPANY; ALLSTATE INSURANCE COMPANY; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY, *et al.*,

Defendants-Appellees.

STATE OF CALIFORNIA; CITY OF LAFAYETTE; CITY AND COUNTY OF SAN FRANCISCO; COUNTY OF SAN BENITO,

Plaintiffs-Appellants,

and

STATE OF ALABAMA, *et al.*,

Plaintiffs,

v.

AETNA CASUALTY AND SURETY COMPANY; ALLSTATE INSURANCE COMPANY; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY, *et al.*,

Defendants-Appellees.

STATE OF CALIFORNIA; CITY OF LAFAYETTE; CITY AND COUNTY OF SAN FRANCISCO; COUNTY OF SAN BENITO,
Plaintiffs-Appellants,

v.

INSURANCE SERVICES OFFICE, INC., CNA RE (U.K.) LTD.; CONTINENTAL REINSURANCE CORPORATION; UNION-AMERICA INSURANCE CO.; EDWARDS & PAYNE LTD.; EXCESS INSURANCE CO., LTD.; GENERAL REINSURANCE CORP.; THOMAS A. GREENE & COMPANY, INC.; KEMPER REINSURANCE LONDON; LLOYD'S UNDERWRITERS & BROKERS; MERCANTILE & GENERAL REINSURANCE COMPANY OF AMERICA; NORTH AMERICAN REINSURANCE CORPORATION; OXFORD SYNDICATE MGMT. LTD.; (sued herein as K.F. ADLER & OTHERS (U.A.) LTD.); PRUDENTIAL REINSURANCE; REINSURANCE ASSOCIATION OF AMERICA; TERRA NOVA INSURANCE CO.; AETNA CASUALTY AND SURETY COMPANY; ALLSTATE INSURANCE COMPANY; WINTERTHUR REINSURANCE CORPORATION OF AMERICA; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY,
Defendants-Appellees.

STATE OF NEW YORK; ROOSEVELT ISLAND OPERATING AUTHORITY; VILLAGE OF GROTON; VILLAGE OF LAKE SUCCESS,
Plaintiffs-Appellants,

v.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

COMMONWEALTH OF MASSACHUSETTS; TOWN OF HANOVER; TOWN OF MILFORD,
Plaintiffs-Appellants,

v.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

STATE OF MINNESOTA,
Plaintiff-Appellant,

v.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

STATE OF WEST VIRGINIA; CITY OF CLAY; COUNTY OF HANCOCK; COUNTY OF MINERAL; COUNTY OF WIRT,
Plaintiffs-Appellants,

v.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

STATE OF WISCONSIN,
Plaintiff-Appellant,

v.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

CITY OF MOBILE; STATE OF ALABAMA;
CITY OF BIRMINGHAM,
Plaintiffs-Appellants,

v.

AETNA CASUALTY AND SURETY COMPANY; WINTERTHUR REINSURANCE CORPORATION OF AMERICA; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE,
Defendants-Appellees.

STATE OF ARIZONA,
Plaintiff-Appellant,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF MARYLAND,
Plaintiff-Appellant,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF WASHINGTON; COUNTY OF COWLITZ,
Plaintiffs-Appellants,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF NEW JERSEY,
Plaintiff-Appellant,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF COLORADO,
Plaintiff-Appellant,

v.

WINTERTHUR REINSURANCE CORPORATION OF AMERICA; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE,
Defendants-Appellees.

STATE OF OHIO; TOWNSHIP OF JACKSON;
COUNTY OF HARDIN,
Plaintiffs-Appellants,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF CONNECTICUT,
Plaintiff-Appellant,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

COMMONWEALTH OF PENNSYLVANIA; COUNTY OF SCHUYLKILL; CITY OF ALTOONA; CITY OF YORK; BOROUGH OF CHAMBERSBURG,
Plaintiffs-Appellants,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF ALASKA,
Plaintiff-Appellant,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF MONTANA; COUNTY OF TETON,
Plaintiffs-Appellants,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF MICHIGAN,
Plaintiff-Appellant,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

STATE OF LOUISIANA, CITIES OF BATON ROUGE, NEW ORLEANS, SLIDELL, NACHITOCHES AND EUNICE,
Plaintiffs-Appellants,

v.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

Appeal from the United States District Court
for the Northern District of California

Argued and Submitted March 15, 1991

Decided June 18, 1991

Before BEEZER and NOONAN, Circuit Judges, and SINGLETON,* District Judge.

NOONAN, Circuit Judge:

Nineteen states and numerous private parties brought antitrust suits against the defendants named above. These suits were consolidated in the district court and were ultimately dismissed. The plaintiffs appeal. We reverse the district court and remand.

FACTUAL BACKGROUND

The undisputed facts are set out by the district court in *In re Insurance Antitrust Litigation*, 728 F.Supp. 464, 468-70 (N.D. Cal. 1989). We summarize:

Commercial general liability insurance (CGL) protects the insured against the risk of liability to third parties for bodily injury or property damage. It is purchased by businesses, nonprofit entities, and governmental units. Defendants Hartford Fire Insurance Company (Hartford), Allstate Insurance Company (Allstate), Aetna Casualty and Surety Company (Aetna), and CIGNA Corporation (CIGNA) are sellers of CGL.

In distinction from these primary insurers, there are reinsurers to whom the primary insurers turn to share the risk. The terms and availability of reinsurance directly affect the terms and availability of primary insurance. In turn, retrocessional insurance—insurance for reinsurers—has an impact on the terms of reinsurance and primary insurance. The defendant reinsurers in this case are domestic—*e.g.*, General Reinsurance Corporation (General Re)—and also foreign. The foreign defendant companies include one Swiss corporation, Winterthur Swiss Insurance Company (Winterthur); and six "London Company Market" corporations, all of them subsidi-

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*The Honorable James K. Singleton, United States District Judge for the District of Alaska, sitting by designation.

aries of American corporations: Terra Nova Insurance Co., Ltd. (Terra Nova); Unionamerica Insurance Co., Ltd. (Unionamerica); Continental Reinsurance Co., (U.K.) Ltd. (Continental Re); Excess Insurance Group, Ltd. (Excess); Kemper Reinsurance London, Ltd. (Kemper Re); and CNA Re (U.K.) Ltd.

Reinsurance is arranged by specialized brokers and underwriters. Much reinsurance is done by syndicates doing business through Lloyd's of London. A variety of defendants here are underwriters for these reinsurance syndicates—*e.g.*, Merrett Underwriting Agencies Management, Ltd. (Merrett) and Three Quays Underwriting Management Ltd. (Three Quays). Thomas A. Greene and Co., Inc. (Greene) is an American reinsurance broker, a defendant here. Ballantyne, McKean and Sullivan, Ltd. (Ballantyne) and R. K. Carvill & Co., Ltd., (Carvill) are London reinsurance brokers, defendants here. There are also individual defendants associated with reinsurance—*e.g.*, Peter North Miller, the chairman of the Council of Lloyd's, its governing body; and Robin A. G. Jackson, chief underwriter for Merrett.

Two insurance associations are also defendants. One is Reinsurance Association of America (RAA), which principally engages in lobbying. The other is the Insurance Service Office (ISO). ISO has a key role in the regulation of insurance by the several states. Formed in 1971 by the merger of eleven insurance rating bureaus, ISO is an association of over fourteen hundred property and casualty insurers. It develops standard forms of policies. It collects statistical data and estimates risks relevant to the forms. In those states where regulators formally approve the forms, ISO presents the forms for approval.

In 1984, Hartford expressed its dissatisfaction with the standard ISO form for CGL insurance. In particular, Hartford was displeased with the way the form insured against "occurrences" of liability during the life of the policy. Such insurance had "a long tail," *i.e.*, years after

the policy had expired, a claim might be made upon it for an occurrence during the life of the policy. Hartford wanted a "claims made" form to replace the "occurrences" form. Under a "claims made" form only claims made during the life of the policy would be paid. Hartford also objected to coverage of liability for accidental pollution in the standard CGL form.

Led by Hartford, the defendant primary insurers exerted concerted pressure on ISO to get it to withdraw its form for CGL insurance. In June 1984 Hartford persuaded major American reinsurers to agree to boycott the ISO form. Hartford, Aetna, Allstate and CIGNA then joined forces to persuade key underwriters at Lloyd's to agree to boycott the form. The defendants used reinsurance brokers to convey their message. Leading underwriters in London responded to the American request by threatening a boycott of insurance written on the form. ISO began to retreat. In September 1984 ISO agreed to the unprecedented presence of domestic and foreign reinsurers at its executive committee meeting of September 20, 1984. Four reinsurance underwriters from Lloyd's conveyed their insistence on Hartford's terms. Change the form or get no reinsurance was their theme. ISO responded by eliminating accidental pollution coverage and by approving a claims made form with a date after which claims could not be filed. ISO also continued to offer a CGL occurrence form.

The reinsurance defendants continued to press for elimination of the occurrence form. They announced, publicly and privately, that there would be no reinsurance for primary insurers writing on the occurrence form, and they refused to renew long-standing reinsurance treaties with primary insurers in the United States unless they agreed to abandon the occurrence form. As a result of the reinsurers' actions, primary insurers were precluded from selling long tail insurance and also from selling accidental pollution insurance. Whether these varieties of insurance disappeared entirely is not clear; what is alleged is that

their availability was substantially diminished. In most states where a regulatory state agency approved insurance forms, ISO obtained approval of its new CGL form. Thereafter, ISO withdrew its data collection and risk-estimation support for the pre-1984 form.

In late 1985 Hartford and Aetna took the lead in urging ISO to develop standard forms for two other types of CGL insurance: umbrella and excess. With the cooperation of Merrett, Three Quays and Allstate, these standard forms were prepared and approved by ISO.

London reinsurers including Unionamerica, Terra Nova, Excess, Kemper Re and Continental Re, plus the Lloyd's underwriters Merrett and Edwards and Payne agreed to boycott reinsurance and insurance policies for United States property seepage and pollution exposures. The agreement is memorialized in the "Non Marine London Market Agreement 1987," signed by over forty retrocessional reinsurers at Lloyd's and the London Company Market. The parties to the agreement agreed to accept retrocessional reinsurance only from reinsurers who signed a letter of intent stating the following:

> We hereby agree that we will use our best endeavours to ensure that all U.S.A. and Canadian exposed insurance/reinsurance business attaching on or after 1st January 1987 will only be written where the original business includes a seepage and pollution exclusion clause wherever legal and applicable.

The effect of this agreement was to deny insurance consumers in the United States property coverage for seepage and pollution.

The Markets

As the plaintiffs have presented their case, the markets affected by the defendants' conduct are (1) the market in the United States for CGL insurance, (2) the market in the United States for excess and umbrella CGL insurance,

(3) the market in the United States for property insurance, (4) the market in the United States and the United Kingdom for reinsurance, and (5) the market in the United Kingdom for retrocessional insurance.

The Suits

The complaint filed by California is representative of the claims of Alabama, Arizona, California, Massachusetts, New York, West Virginia, and Wisconsin. In its first claim, California alleges that the American reinsurer defendants; the four primary insurer defendants; Winterthur; and Greene conspired in violation of section 1 of the Sherman Act, 15 U.S.C. § 1, to restrict the terms on which reinsurance would be offered for CGL risks and to refuse to provide reinsurance coverage for CGL risks unless ISO agreed to amend its 1984 CGL forms. In its second claim, California alleges that named Lloyd's underwriters; the four primary insurer defendants; and the brokers Greene and Carvill conspired to the same effect. In the third claim, California alleges that the Lloyd's underwriters; the four primary insurers; the American reinsurers; Winterthur; and Greene and Carvill conspired to the same effect.

In its fourth claim, California includes as defendants RAA and ISO together with the primary insurers; the Lloyd's underwriters; the American reinsurers; Winterthur; and Greene and Carvill. California charges them with conspiracy to eliminate pollution coverage and retroactive coverage from the 1984 claims-made form of ISO.

California's fifth claim is against five named Lloyd's underwriters; against Peter Miller and Robin A. G. Jackson; and against the London reinsurance broker Ballantyne, charging them with violation of section 1 of the Sherman Act by conspiracy to restrict the terms on which reinsurance would be provided for CGL risks; to refuse to reinsure CGL risks written on an occurrence form; and to eliminate reinsurance on long-tail risk covered by occurrence policies.

The sixth claim for relief names the Lloyd's underwriters; London company reinsurers, Unionamerica, Terra Nova, and CNA Re; and London reinsurance broker Ballantyne as conspirators to violate the Sherman Act by restricting the terms on which CGL reinsurance would be provided and by limiting the availability in the United States of pollution coverage.

In the seventh claim California charges ISO; Aetna, Allstate and Hartford; and the underwriters Merrett and Three Quays with violating the Sherman Act by agreeing to, and promulgating, model forms for umbrella and excess insurance.

The eighth claim of California is that the six named London Company reinsurers plus Merrett conspired to restrict the terms on which property insurance and reinsurance coverage would be provided for North American risks.

The ninth to eleventh claims of California are for violations of state law—of, respectively, the Cartwright Act, California Business and Professional Code, § 16720 et seq.; the Unfair Trade Practices Act, California Insurance Code, § 790 et seq.; and the Unfair Competition Act, California Business and Professions Code § 17200 et seq. No defendants are named in these claims but it is asserted that all of the conspiracies federally charged violated the three state laws invoked here.

The complaint of Connecticut is representative of complaints filed after the California complaint by Alaska, Colorado, Connecticut, Louisiana, Maryland, Michigan, Minnesota, Montana, New Jersey, Ohio, Pennsylvania, and Washington. There is substantial overlap between the California and Connecticut complaints. Connecticut, however, in its first claim charges all of the defendants with violation of section 1 of the Sherman Act "by a conspiracy with the purpose and with the effect of shrinking the scope of CGL property/casualty insurance and reinsur-

ance and retrocessional reinsurance in connection therewith."

PROCEEDINGS

In March 1988 eight plaintiff states filed California-style complaints. In June 1988 ten additional states filed Connecticut-style complaints. Louisiana later joined this group, and Minnesota amended its complaint to conform to the Connecticut style. Various private plaintiffs joined in; all but two—from Illinois and Florida—were from states that were already plaintiffs.

The defendants filed five motions asking the district court to dismiss the suits for failure to state a cause of action or, in the alternative, to grant summary judgment. On October 10, 1989 the district court gave judgment for the defendants for reasons that will be taken up *infra*. Doing so, the district court treated its action as dismissal for failure to state a cause of action or, in the alternative, as summary judgment for the defendants. The district court accepted all the facts alleged by the plaintiffs and stated that there were "no factual disputes material to this ruling." *In re Insurance Antitrust Litigation*, 723 F.Supp. at 491.

Thereafter the plaintiffs moved to amend, and the district court denied the motion, observing: "The plain fact is that plaintiffs seek to recover on a theory that, as heretofore explained at length, will not stand under the law." *Id.* at 490.

The plaintiffs appeal.

ANALYSIS

Standing

The domestic and foreign reinsurers challenged the plaintiffs' standing to bring an antitrust suit against them. The district court ruled in the plaintiffs' favor. *In re Insurance Antitrust Litigation*, 723 F.Supp. at

482-83. The foreign reinsurer defendants press their position on this appeal.

Standing in the sense challenged depends on whether Congress in the Sherman Act intended to protect the kind of interest asserted by the plaintiffs. *R.C. Dick Geothermal Corp. v. Thermogenics, Inc.*, 890 F.2d 139, 146 (9th Cir.1989). To answer this question we look at the five factors set out in *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 537-45, 103 S.Ct. 897, 908-12, 74 L.Ed.2d 723 (1983).

First: The Specific Intent of the Alleged Conspirators. The reinsurer defendants are alleged to have intended to restrict the kinds of insurance available to the plaintiffs. This factor favors standing.

Second: The Directness of the Injury. "Directness" in the antitrust context means "close in the chain of causation." *R.C. Dick*, 890 F.2d at 147. Accepting as we must the plaintiffs' allegations as true, there is a close connection between the conduct of the reinsurer defendants, domestic and foreign, and the damages suffered by the plaintiffs. As the district court found, "the direct effect" of the reinsurers' action was "to restrain the availability of desired coverages in the markets in which plaintiffs purchase insurance." *In re Insurance Antitrust Litigation*, 723 F.Supp. at 483. That the action of the reinsurers took effect through the primary insurers does not lessen the directness of these consequences which followed so closely upon the challenged conduct. The injury alleged was direct. This factor favors standing.

Third: The Character of the Damages. According to their claims, plaintiffs suffered by having to pay more for the insurance they wanted. Although the proof may be complex, it would appear that they could prove how much extra they had to pay. In the claims in which the primary insurers are charged together with the reinsurers, all of the defendants would be jointly and sever-

ally liable if the charges are true. In the claims in which the reinsurers alone are defendants, there will be a problem of allocating the damages caused by the reinsurers as distinct from the damages caused by the primary insurers, and there is a danger of duplicative recovery. To the extent of this problem and this damage, the character of the damages is against standing; but the net balance as to damages is in favor of standing.

Fourth: The Existence of Other, More Appropriate Plaintiffs. The primary insurers who were denied reinsurance could have brought suit. The theoretical possibility that such entities could have sued must be discounted by the power the allegations attribute to the London reinsurers. The 1400 members of ISO could not withstand this power. As they caved in to it, they are unlikely to desire to challenge it in court. Consumers of insurance are not subject to this restraint. Realistically, no more appropriate class of plaintiffs exists.

Fifth: The Nature of the Plaintiffs' Claimed Injury. The fifth factor is "of tremendous significance." *R.C. Dick*, 890 F.2d at 148, quoting *Bhan v. NME Hospitals, Inc.*, 772 F.2d 1467, 1470 n. 3 (9th Cir.1985). For example, a plaintiff who is "neither a competitor nor a consumer" in the relevant market does not suffer "antitrust injury." *R.C. Dick* at 148.

In contrast, plaintiffs here were consumers of CGL insurance. As consumers, they participated in the market said to have been restrained. The antitrust laws are intended to preserve competition. They are intended to preserve competition for the benefit of consumers in the market in which competition occurs. When competition is choked off, it is the consumers who suffer. The plaintiffs here as consumers have alleged antitrust injury.

The Balance. Almost all of the *Associated General Contractors* factors point to the presence of standing against all of the defendants. By not challenging the plaintiffs'

standing on this appeal, the defendant primary insurers and the domestic reinsurers concede the presence of the factors that establish standing. The foreign reinsurers have no characteristics that distinguish them from the domestic reinsurers. As the district court determined, the plaintiffs have standing to maintain this antitrust suit against all defendants.

Standing as Parens Patriae

That a state as *parens patriae* may sue to redress a violation of the antitrust laws is well-established. *Georgia v. Pennsylvania R. Co.*, 324 U.S. 439, 450-51, 65 S.Ct. 716, 722-23, 89 L.Ed. 1051 (1945) (conspiracy in violation of antitrust laws is a wrong "of grave public concern in which Georgia has an interest apart from that of particular individuals who may be affected.") There must, of course, be antitrust injury for an injunction to be granted. *Cargill, Inc. v. Monfort of Colorado, Inc.*, 479 U.S. 104, 109-16, 107 S.Ct. 484, 488-92, 93 L.Ed.2d 427 (1986). Each state here asserts its "quasi-sovereign interest in the health and well-being—both physical and economic—of its residents in general." *Alfred L. Snapp & Sons, Inc. v. Puerto Rico*, 458 U.S. 592, 607, 102 S.Ct. 3260, 3269, 73 L.Ed.2d 995 (1982). That interest makes each state "more than a nominal party." *Id.* The state's interest in preventing harm to its citizens by antitrust violations is, indeed, a prime instance of the interest that the *parens patriae* can vindicate by obtaining damages and/or an injunction. *Id.* at 605, 102 S.Ct. at 3268.

The McCarran-Ferguson Act Defense

The district court dismissed the claims of the plaintiffs because of the McCarran-Ferguson Act immunity of the defendants. We look at the plaintiffs' allegations, accepting them as the district court did as true, to see if McCarran immunity is present.

The McCarran-Ferguson Act provides that no act of Congress "shall be construed to invalidate" any state

law enacted "for the purpose of regulating the business of insurance." 15 U.S.C. § 1012(b) (1988). Two relevant exceptions are added: The Sherman Act "shall be applicable to the business of insurance to the extent that such business is not regulated by the State law." *Id.* Moreover, "Nothing contained in this chapter shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation." *Id.* § 1013(b).

For the immunity to apply, therefore, the defendants must be in the business of insurance; that business must be regulated by state law; and the defendants must not have agreed to boycott, coerce, or intimidate or performed an act of boycott, coercion or intimidation.

The Business of Insurance

The district court correctly found that the first condition was met: the defendants are in the business of insurance. Reinsurance and retrocessional insurance are as much the business of insurance as the offering of primary insurance. *In re Insurance Antitrust Litigation*, 723 F.Supp. at 473. Although the plaintiffs made an issue of this question in the district court, they do not seriously argue it on this appeal.

State Regulation

Do the states regulate the conduct complained of here? The district court observed that the complaints filed by the states alleged violation of state law as well as violation of the Sherman Act. The district court concluded that these allegations were "self-defeating." *Id.* at 475. The states had wounded their case mortally by asserting that the defendants were liable to state regulation.

By the same token, it could be observed, the defendants by their McCarran-Ferguson Act defense conceded that their business was subject to regulation by the states, and

the foreign defendants thereby undermined their claim that comity barred their being subject to American regulation. The district court recognized that the position of the foreign defendants was inconsistent but did not feel bound to resolve the inconsistency, treating the defendants' pleas as alternatives: they won either because they were subject to state regulation or, because of comity, they were subject to no American regulation. *Id.* at 479.

What is sauce for the goose is sauce for the gander. If defendants are to be read as offering inconsistent alternatives, so are the plaintiffs to be read. Pleading of one alternative does not destroy the foundation of the other alternative. Neither side is trapped by its pleadings.

More fundamentally, established law blocks regulation by one state of the United States of the insurance business outside the borders of that state. A state's regulation of insurance does not have extraterritorial effect within the United States. *See FTC v. Travelers Health Ass'n*, 362 U.S. 293, 298-99, 302, 80 S.Ct. 717, 720-21, 722, 4 L.Ed.2d 724 (1960). The court commented on the legislative history of the McCarran-Ferguson Act and concluded from H.R.Rep. 143, 79 Cong. 1st Sess. 3, which cited *Allgeyer v. Louisiana*, 165 U.S. 578, 17 S.Ct. 427, 41 L.Ed. 832; *St. Louis Cotton Compress Co. v. Arkansas*, 260 U.S. 346, 43 S.Ct. 125, 67 L.Ed. 297; and *Connecticut General Insurance Co. v. Johnson*, 303 U.S. 77, 58 S.Ct. 436, 82 L.Ed. 673 that a state does not have power to regulate in any way contracts of insurance or reinsurance entered into outside its jurisdiction even though the risks covered were risks within the state. *Id.* 362 U.S. at 300-01, 80 S.Ct. at 721-22. The Court summed up the legislative history: "There was no indication of any thought that a State could regulate activities carried on beyond its own borders." *Id.* at 300, 80 S.Ct. at 721.

A fortiori, regulation by the fifty states of foreign reinsurers is beyond the jurisdiction of the states. J. At-

wood and K. Brewster, *Antitrust and American Business Abroad* (2d ed. 1981) 1, 78. All of the arguments eloquently put by the London defendants in their objection to the application of the Sherman Act to their business apply fifty times over to the regulation of it by the individual states. State insurance schemes "do not, and could not, purport to regulate the bulk of international insurance transactions." *Id.* Consequently, McCarran-Ferguson Act immunity does not attach to the foreign defendants. By the same token, the claims by the states against the foreign defendants alone under state insurance laws (referencing the fifth, sixth, and eighth California claims) must be dismissed as seeking to exercise extraterritorial jurisdiction.

A different question is presented by the primary insurers, the American reinsurers, and the American insurance brokers, all of whom are subject to regulation by the states and therefore prima facie immune. The question is whether the action of these domestic defendants in combination with the foreign defendants is subject to state regulation. The states argue that it is not. They invoke the principle that "an exempt entity forfeits antitrust exemption by acting in concert with nonexempt parties." *Group Life & Health Ins. Co. v. Royal Drug Co.*, 440 U.S. 205, 231, 99 S.Ct. 1067, 1083, 59 L.Ed.2d 261 (1979). Membership of an exempt entity in a conspiracy with nonexempt entities makes the exempt entity liable. *Beltz Travel Service, Inc. v. International Air Transport Assoc.*, 620 F.2d 1360, 1366-67 (9th Cir.1980). The domestic defendants offer no rebuttal to these authorities. We conclude that the domestic defendants' immunity was lost when they conspired with the foreign defendants.

Boycotts

A second, independent ground exists why the McCarran-Ferguson Act defense does not work for any of the defendants. The Sherman Act applies to persons or companies in the insurance business if they agreed to a boycott or engaged in acts of boycott or coercion. The allegations of the plaintiffs, here accepted as true, charge agreements by the defendants to boycott nonconforming insurers and acts of boycott and coercion. No immunity for such agreements and acts exists.

The defendants' position is that they could confer and agree on the terms on which insurance would be offered; the immunity in so doing is incontestable. But they are charged with much more: with agreeing to refuse reinsurance for CGL risks unless ISO amended its 1984 CGL form; with coercing ISO and ISO members to adopt the terms the defendants wanted; with coercing primary insurers to use the claims-made form; with agreeing to exclude from all casualty and property treaty reinsurance written in London all pollution coverage for American risks. The facts underlying these allegations are asserted in some detail, including, the actions of Hartford, CIGNA, Aetna, and Allstate in 1984 in bringing pressure on the ISO staff and other ISO members; the meeting of March 2, 1984 between representatives of Hartford and representatives of General Re when they agreed to coerce ISO to accept their demand; the successful effort of General Re with RAA so that on March 26, 1984, RAA created a committee, consisting of five of the defendant domestic reinsurers, to force revision of the ISO forms of CGL insurance; the agreement of this committee on June 15, 1984 to boycott the 1984 forms, followed by a letter from RAA to ISO on June 19, 1984, stating that the members of RAA would not provide reinsurance for coverages written on the 1984 forms; the enlistment of Thomas Greene to carry this message to ISO, as he did in a speech to the ISO directors on June 21, 1984.

Hartford, Aetna, CIGNA, and Allstate—all according to allegations that here are accepted as the truth—also took the initiative to encourage a boycott of the 1984 ISO forms by the lead underwriters of North American casualty reinsurance at Lloyd's of London and used Thomas

Greene and Nick Graham of Carvill to carry the message to the London reinsurance market. As a result of these efforts, the lead underwriters, named as defendants here, met representatives of ISO at the Garrick Club in London on July 4, 1984 and indicated their resolve to eliminate the occurrence form. On September 19, 1984, at a dinner at the Board Room, a private club in New York City, a combination of representatives of the defendant domestic reinsurers and foreign underwriters communicated to ISO members their agreed demands for change. The following day ISO largely capitulated. Agreements to boycott and acts of implementation of the agreements are, in short, explicitly set forth in the complaints.

In the classic case on boycotts in the context of the McCarran-Ferguson Act, *St. Paul Fire & Marine Insurance Co. v. Barry*, 438 U.S. 531, 98 S.Ct. 2923, 57 L.Ed.2d 932 (1978), four insurance companies entered into an agreement according to whose terms three of the companies would not sell insurance to doctors in order to force them to accept "new ground rules of coverage set by the fourth." *Id.* at 533, 98 S.Ct. at 2926. The Court found "an organized boycott" to exist, stating: "The enlistment of third parties in an agreement not to trade, as a means of compelling capitulation by the boycotted group, long has been viewed as conduct supporting a finding of unlawful boycott." *Id.* at 544-45, 98 S.Ct. at 2931. That is exactly what Hartford and the other defendant prime insurers did here, always accepting the plaintiffs' allegations as true: they enlisted the reinsurers to compel capitulation by ISO and the insurers who had refused to go along with the Hartford demands. The London reinsurers did similarly in denying retrocessional coverage on policies covering pollution risks.

Congress, the Court said in *St. Paul*, intended to guard against "the danger that insurance companies might take advantage of purely permissive state legislation to establish monopolies and enter into restrictive agreements falling outside the realm of state-supervised cooperative action." *Id.* at 547, 98 S.Ct. at 2933. The states allege that Hartford and its allies engaged in precisely such conduct and that the reinsurers did the same among themselves.

The Court in *St. Paul* gave prominence to the explanation of the McCarran-Ferguson Act by Senator O'Mahoney, who said the vice in the insurance industry was "a system of private government which had been built up by a small group of insurance companies, which companies undertook by their agreements and understandings to invade the field of Congress to regulate commerce." *Id.* at 548, 98 S.Ct. at 2933. That is precisely what has happened in this case, according to the plaintiffs: the defendants have gone beyond joint action to their own regulation of the terms on which CGL and property insurance will be offered.

The district court, of course, was as familiar with *St. Paul* as this court is, but placed an emphasis that we do not on the Court's statement that the boycotting insurers there would not deal with the doctors "*on any terms.*" The district court supplied italics for this phrase which is unemphasized in the Court's opinion. Compare *In re Insurance Antitrust Litigation*, 723 F.Supp. at 476, with *St. Paul*, 438 U.S. at 552, 98 S.Ct. at 2935. The issue before the Court was whether "boycott" in the McCarran-Ferguson Act meant boycotts directed against policyholders as well as boycotts directed at competitors. *Id* at 552, 98 S.Ct. at 2935. The Court held the term to include both kinds of boycott. The description of the boycott at issue was not made as a definition excluding from the definition refusals to deal except on the terms demanded. The evil of a boycott is not its absolute character but the use of the economic power of a third party to force the boycott victim to agree to the boycott beneficiary's terms. So the three malpractice insurers in *St. Paul* used their economic power to force doctors to

accept St. Paul's terms; so here, the defendant reinsurers and London underwriters used their economic power, their refusal to reinsure, to force ISO and its recalcitrant members to accept the terms Hartford and its allies wanted. They, if plaintiffs are correct in their allegations, engaged in a boycott.

The district court limited the term "boycott" in a second way, quoting *Feinstein v. Nettleship Co.*, 714 F.2d 928, 933 (9th Cir. 1983), *cert. denied*, 466 U.S. 972, 104 S.Ct. 2346, 80 L.Ed.2d 820 (1984): "Because [the agreement] in no way limited the doctors' ability to deal with third parties, the agreement itself is not an agreement to boycott. . . ." But this dictum is taken from its context. In *Feinstein* an agreement between a county medical association and an insurance agent led the defendant insurer to provide malpractice insurance only to members of the association. The plaintiff doctors could buy insurance from other insurers and did not contend that they were subject to a boycott; what they objected to was the "inherently coercive" power of the defendants' "monopoly power." *Id.* at 933. We observed that the plaintiffs' objection to monopoly power was an invocation of section 2 of the Sherman Act, and by its terms the McCarran-Ferguson Act gave immunity from this part of the Sherman Act. *Id.* at 933-34. *Feinstein* is patently very different from the case where boycotts are alleged by plaintiffs who say that the defendants conspired to restrict primary insurance by the reinsurers' agreement to a boycott.

Why were the charges of the complaint not as plain to the district court as they appear to be on appeal? Because the district court took the position that the insurers' and reinsurers' agreement on terms was immune and that such agreement "comprehends efforts to seek agreement by others, including those who might be unwilling to agree were it not for economic exigencies." *In re Insurance Antitrust Litigation*, 723 F.Supp. at 478.

But when "the economic exigencies" are produced by conspirators who refuse to supply reinsurance if the unwilling insurer does not agree, a boycott is in effect and is being implemented. The defendants are charged with boycotts, and the allegations, taken as true, destroy their McCarran-Ferguson Act immunity.

Excess and Umbrella Insurance. No boycotts are alleged as the defendants' modus operandi in respect to these branches of insurance. The states say that they are parts of the insurance business unregulated by the states and so not immune under McCarran. The district court held to the contrary, finding that all of the relevant states had statutes "broad enough to apply to any persons in the business of insurance." *In re Insurance Antitrust Litigation*, 723 F.Supp. at 474.

The domestic sellers of excess and umbrella insurance were, as the district court held, exempt. But they engaged in agreements—so it is stated—with the non-exempt Lloyd's underwriters, Merrett and Three Quays. Their own exemption was lost by acting in concert with non-exempt parties. *Group Life and Health Ins. Co.*, 440 U.S. at 231, 99 S.Ct. at 1083.

The State Action Defense

If the states have no regulatory authority over the foreign entities and if combination with the latter forfeits the immunity of the domestic companies, a third line of argument advanced by some defendants works even less well for them. These defendants, referring to those states whose regulatory agencies approved the revised ISO form, contend that there was not only state regulation but state action, and that therefore they have immunity under *Parker v. Brown*, 317 U.S. 341, 63 S.Ct. 307, 87 L.Ed. 315 (1943). The relevant states, they argue, had a clearly articulated policy to displace competition with regulation when they permitted "the collective development" of insurance policy forms and actively su-

pervised the contents of the forms. The action by the states, they assert, insulates them under *Parker* entirely apart from their *McCarran* exemption.

Their argument fails because nothing in the affidavit evidence submitted by the defendants shows that the relevant states supervised or approved the boycotts used to produce agreement on the forms. The plaintiffs, the defendants object, produced no evidence countering their evidence. The plaintiffs did not need to do so: the defendants had made no showing of state action endorsing the boycotts.

The defendants are in the same position as the defendants in *St. Paul:* the policy changes desired by St. Paul were assumed by the court to have been filed with the state insurance director. The Court observed that there was no suggestion that Rhode Island, "in furtherance of its regulatory policies, authorized the concerted refusal to deal on any terms with St. Paul's policyholders." *St. Paul*, 438 U.S. at 554 n. 26, 98 S.Ct. at 2936 n. 26. We have adopted the same distinction: state approval of one activity is not state approval of a related but distinct activity. *Medic Air Corp. v. Air Ambulance Authority*, 843 F.2d 1187 (9th Cir.1988). The alleged anticompetitive conduct in the present case, as in *Medic Air Corp.*, was neither a reasonable nor necessary consequence of the conduct regulated and approved by the state. *Id.* at 1189. The agreements to refuse to reinsure were not state action.

The Connecticut Claim of a General Conspiracy. The London reinsurers challenged the claim in the Connecticut complaint that included both casualty and property insurance and the reinsurance and retrocessional insurance connected therewith. The district court observed that property insurance had not been alleged to have a connection with CGL insurance or with the market in which CGL insurance is sold. The district court there-

upon granted the motion to dismiss this claim. *In re Insurance Antitrust Litigation*, 723 F.Supp. at 484.

The district court rightly objected to a defect in this claim. The plaintiffs moved to amend. The district court denied the motion. The defendants say the motion was too late. But the district court did not deny amendment because the plaintiffs moved too late. It denied amendment because the plaintiffs' entire theory "will not stand under the law." *In re Insurance Antitrust Litigation*, 723 F.Supp. at 490. We are free to review this legal conclusion de novo. It is not consistent with this opinion. The plaintiffs' basic theory is maintainable. On remand of the case to the district court, the plaintiffs should be afforded the opportunity to amend.

Comity

A statute enacted in 1982 declares that the Sherman Act "shall not apply to conduct involving trade or commerce (other than import trade or import commerce) with foreign nations." Foreign Trade Antitrust Improvement Act of 1982, 15 U.S.C. § 6a (the FTAIA). But the statute immediately adds, "unless (1) such conduct has a direct, substantial, and reasonably foreseeable effect (A) on trade or commerce which is not trade or commerce with foreign nations. . . ." *Id.* The defendants contended in the district court that the FTAIA barred the plaintiffs because the conduct complained of in the London reinsurance claims related to commerce that was "wholly foreign commerce." The district court rejected this argument, holding as follows: "The subject matter of the alleged agreement, however, concerned the provision of reinsurance within the United States, and the allegations of effects in United States markets are sufficient to preclude a characterization of wholly foreign commerce." *In re Insurance Antitrust Litigation*, 723 F.Supp. at 486. By finding "the effects" sufficient to preclude application of the statute, the district court implicitly found that their impact on the commerce of the United States met the stat-

utory standard of being "direct, substantial and reasonably foreseeable."

On appeal, the London reinsurers devote a single sentence in a single footnote to restating their view that the FTAIA bars the claims directed at conduct within the London reinsurance market. These defendants offer neither evidence nor authority to provide a basis for overturning the district court's holding. We reaffirm its conclusion that the FTAIA is no bar to any of the plaintiffs' claims.

The district court, however, found that international comity forbade its exercise of its jurisdiction over the British defendants. The district court acknowledged that as to this issue its application of the FTAIA might be argued to be decisive. *Id.* at 486, n. 28. But there were no court decisions so holding. The House Report on this legislation stated that it had "no effect on the court's ability to employ notions of comity." H.R.Rep. No. 97-686 at 13 (1982), *reprinted in* 1982 *U.S. Code Cong. & Admin. News* at 2431, 2498. The district court prudently concluded that it should apply the analysis of comity set out in *Timberlane Lumber Co. v. Bank of America*, 549 F.2d 597 (9th Cir.1976) (*Timberlane I*).

On appeal, the plaintiffs renew their argument: the Foreign Trade Antitrust Improvement Act of 1982, 15 U.S.C. § 6a, is dispositive. The defendants do not reply to their argument but by implication of their insistence on *Timberlane* do not concede. We strike a middle position. We do not believe a *Timberlane* analysis (see *infra*) can be unaffected by the statute. If a complaint survives the new bar of 15 U.S.C. § 6a because the conduct has "a direct, substantial, and reasonable foreseeable effect" on American commerce, it is only in an unusual case that comity will require abstention from the exercise of jurisdiction. But as the legislation does not eliminate comity, a court should look to see if the case before it is one in which comity still has a role to play.

Timberlane I was an opinion of this court written by Judge Herbert Choy which "has commanded a wide following," Atwood & Brewster, *Antitrust and American Business Abroad* 1, 162-63. As an advance upon Judge Learned Hand's exposition of the law of extraterritorial application of American antitrust law in *United States v. Aluminum Co. of America*, 148 F.2d 416 (2nd Cir. 1945), *Timberlane* was "a major development." Atwood & Brewster, 1, 163. Rejecting the simple test of the effect of the charged conduct upon American commerce, *Timberlane* adopted "a jurisdictional rule of reason." *Timberlane I*, 549 F.2d at 613. We were to "weigh" and to "balance" the various considerations—the two metaphors indicated that a court should examine each relevant factor, assign its relative importance, and come to a conclusion by comparing the relative importance of the elements involved. We now conduct this examination and evaluation in terms of the factors enumerated by *Timberlane*.

First: The Degree of Conflict With Foreign Law or Policy. The government of the United Kingdom has filed a brief as amicus on this appeal. That brief informs us that the Lloyd's Acts 1871-1982 provide detailed regulation of the Society of Lloyd's. The regulation is supplemented by the Insurance Companies Act of 1982, which applies to most insurance companies as well. The Restrictive Trade Practice (Services) Order exempts certain insurance services from the Restrictive Trade Practices Act of 1976. See *In re Insurance Antitrust Litigation*, 723 F.Supp. at 488. The district court found that application of the antitrust laws to the London reinsurance market "would lead to significant conflict with English law and policy." *Id.* at 489. The British brief reiterates that conclusion; we do not doubt its accuracy. Such a conflict, unless outweighed by other factors, would by itself be reason to decline exercise of jurisdiction. *Timberlane Lumber Co. v. Bank of America*, 749 F.2d 1378,

1384 (9th Cir.1984) (*Timberlane II*), *cert. denied*, 472 U.S. 1032, 105 S.Ct. 3514, 87 L.Ed.2d 643 (1985).

Second: The Nationality or Allegiance of the Parties and the Locations or Principal Places of Business of the Corporations. All of the plaintiffs are located in the United States. There is a substantial American interest in hearing their case. That interest is increased because nineteen of the plaintiffs are themselves states of the United States. The defendants named in certain counts are English or located in England. The district court found that "many of the corporate defendants," including those located in England, "are subsidiaries of American corporations and may be influenced by the allegiance of their American parents." *In re Insurance Antitrust Litigation*, 723 F.Supp. at 489. The interests of Britain are at least diminished where the parties are subsidiaries of American corporations. *United States v. Vetco, Inc.*, 691 F.2d 1281, 1289 (9th Cir.), *cert. denied*, 454 U.S. 1098, 102 S.Ct. 671, 70 L.Ed.2d 639 (1981). Moreover, although some counts of the complaints have named only the English reinsurers as defendants, other counts charge them as coconspirators with American insurers. As to these counts, the interest of an American court in being able to judge claims against an American company is high. It would not make much sense to dismiss the London defendants on some counts and hold them answerable on others. On balance, the presence of the American plaintiffs, many American defendants and some American subsidiaries is a factor pointing towards the exercise of jurisdiction.

Third: The Extent to Which Enforcement by Either State Can Be Expected to Achieve Compliance. It would be unrealistic to expect a British court to enforce an American court's injunction against Lloyd's. It would not be unrealistic to expect an American court to be able to obtain compliance with its orders by the subsidiary of an American parent and to be able to affect the way the

foreign defendants conducted themselves in the United States. Damages, if awarded, could be collected from assets of the foreign defendants within the United States. The decree of an American court setting out the obligations of the American insurers would undoubtedly be effective and surely would have an impact on the way the American insurers did business with the foreign defendants. Substantial compliance, in short, could be achieved. This factor is in favor of the exercise of jurisdiction.

Fourth: The Relative Significance of Effects on the United States as Compared With Those Elsewhere. The comparison led to the ultimate dismissal of the Timberlane suit in *Timberlane II:* the effects of the conduct charged were substantial in Honduras and minimal in the United States. *Timberlane II*, 749 F.2d at 1385. The case here is just the reverse. The effects are minimal, or at any rate not large in England, and they are, as implicitly found by the district court, "direct, substantial, and reasonably foreseeable" in the United States, as to which Lloyd's does at least half of its casualty underwriting. Accepting as true the plaintiffs' allegations, the actions of the foreign defendants have had the kind of "real economic consequences" for the American economy that strongly weigh in favor of the exercise of jurisdiction. *See* Atwood and Brewster, 1, 169.

Fifth: The Extent to Which There is Explicit Purpose to Harm or Affect United States Commerce. The purpose of the agreements to boycott was to affect the insurance business in the United States. The district court thought that the purpose was "the legitimate business purpose" of reducing the defendants' exposure to certain kinds of risks. *In re Insurance Antitrust Litigation*, 723 F.Supp. at 490. Both purposes existed. But in applying the jurisdictional test it is the purpose to affect American commerce that is more important. The compliance of the charged conduct with the law of the foreign jurisdiction has already been taken into account under the first factor.

The fifth factor depends on the relation of the conduct to the United States: was it intended to have effects here? The answer in this case must be yes. So the complaints charge. The fifth factor strongly weighs in favor of the exercise of judgment.

Sixth: The Foreseeability of the Effects on American Commerce. The district court concluded that the defendants conceded that the effects were foreseeable. *Id.* As intended, the effects were, of course, foreseeable. As they were substantial, their foreseeability becomes a strong factor favoring the exercise of jurisdiction.

The Balance. A single factor points toward abstention: the conflict with a long-established British policy towards a venerable British trade, the underwriting of insurance. Every other factor—nationality, likelihood of compliance, the significance of the effects on American commerce, their foreseeability and their purposefulness—points to the appropriateness of exercising jurisdiction. Unless we were to create a kind of analogue of the McCarran-Ferguson Act for insurance business regulated by a foreign country and treat Lloyd's as immune, the district court should exercise jurisdiction. No authority warrants us in creating a special immunity for insurance regulated by Britain. Comity does not require it. Nothing overcomes the weight of the findings already made under the Foreign Trade Antitrust Improvements Act. The comity factors of *Timberlane* indicate that the court's jurisdiction of the subject matter that exists must be exercised.

REVERSED and REMANDED.

APPENDIX B

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

No. MDL 767

IN RE INSURANCE ANTITRUST LITIGATION.

Oct. 10, 1989

REVISED MEMORANDUM OF DECISION AND ORDER

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SCHWARZER, District Judge.

I. INTRODUCTION

Nineteen states and numerous private plaintiffs have brought actions against a group of insurance companies, reinsurance companies, underwriters, brokers, and individuals, and the Insurance Services Office, Inc. ("ISO"), charging them with violations of the federal antitrust laws and state laws.[1] The charges rest on alleged conspiracies, boycotts, threats, intimidation, and other coercive conduct by defendants to restrict the availability of certain coverage under policies for commercial general liability insurance ("CGL") and property insurance. The filing of these complaints followed lengthy investigations conducted by the regulatory agencies of several states.[2]

Defendants have moved to dismiss, for judgment on the pleadings, and for summary judgment, and plaintiffs have made cross-motions. For purposes of these motions, the well-pleaded allegations of the complaints are accepted as true, and any factual disputes and inferences are resolved in plaintiffs' favor.

Copies of the Court's proposed ruling were distributed to counsel well in advance of the hearing, and the Court has considered the arguments of counsel in reaching the decision reflected in this memorandum.

II. FACTUAL BACKGROUND

CGL insurance protects the insured against the risk of liability to third parties for bodily injury or property damage. It is purchased by businesses, non-profit groups, and governmental entities. Defendants Hartford Fire In-

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[1] For a list of the parties and of the actions encompassed by this ruling, see Appendix.

[2] Moreover, under the Court's pretrial order, the parties were free to conduct discovery insofar as necessary for these motions.

surance Company ("Hartford"), Allstate Insurance Company ("Allstate"), Aetna Casualty and Surety Company ("Aetna"), and CIGNA Corporation ("CIGNA") are primary insurers who are major providers of CGL insurance.[3] CGL insurance is written predominantly on standard policy forms developed by ISO.

ISO is an association of more than one thousand property or casualty insurers, including Hartford, Allstate, Aetna, and CIGNA. It is licensed as a rating, rate service, and advisory organization in all fifty states. One of its primary functions is to develop standardized policy forms for property and casualty insurance that comply with state regulations and will be accepted by state insurance departments. On behalf of its members, ISO files standardized policy forms with state insurance departments. ISO also collects historical loss data, projects future loss trends, and calculates advisory rates for insurance.

In the late 1970s, ISO began to develop a revision of the standard CGL form then in use. In 1984, ISO filed or lodged with state insurance departments two proposed new policy forms for CGL insurance. These forms substantially modified coverage previously available to the insured. One of the forms was a "claims-made" policy under which coverage was limited to claims made during the policy period regardless of when the occurrence out of which the claim arose had taken place. This represented a reduction in the coverage available under the previous CGL policy form which was an "occurrence-based" form; under that form, the insured was covered for claims arising out of occurrences during the policy period, no matter when asserted, thus exposing insurers to so-called "long tail risks" that could arise long after the policy period. The proposed claims-made form reduced that ex-

[3] CIGNA is a holding company having subsidiaries which are primary insurers.

posure and shifted the risk of future claims to the insured. The other proposed form was a modified occurrence policy.

These forms became the subject of widespread debate and controversy in the insurance industry. Considerable differences of opinion arose over what should trigger coverage, whether retroactivity of claims-made coverage should be limited, whether the pollution exclusion should be modified, and whether defense costs should be limited by the policy limits.

In their complaint, plaintiffs charge defendants Hartford, CIGNA, Allstate, and Aetna with engaging in a concerted effort to block adoption of the 1984 forms because those forms did not restrict coverage sufficiently. Plaintiffs allege that these defendants entered into conspiracies with certain domestic and foreign defendant reinsurance companies, underwriters, and their representatives to "boycott" the 1984 forms unless a retroactive date was added to the claims-made form and a pollution exclusion and defense cost cap were added to both forms. Plaintiffs allege that as a result of the efforts of Hartford, Allstate, Aetna, and CIGNA, certain domestic and London reinsurers threatened to "boycott" North American CGL risks unless these changes were made in the claims-made form and the occurrence form was eliminated. Also as a result of these efforts, the ISO executive committee in September 1984 voted to include a retroactive cut-off date in the claims-made policy form, to exclude pollution coverage from both forms, but to defer until later limiting defense costs, and to offer an occurrence form along with the new claims-made form.

Following this agreement, ISO, Hartford, Aetna, and representatives of the London reinsurers undertook joint efforts to promote the new forms. Reinsurers refused to accept new reinsurance business or renew old business unless the primary carrier agreed to switch to the claims-made form when available. Reinsurers also imposed "sun-

set dates" in their treaties limiting their exposure to losses on occurrence policies. Reinsurance underwriters also entered into an agreement to exclude pollution liability coverage from reinsurance treaties.

During the period from 1984 through 1986, when these events are alleged to have occurred, ISO lodged or filed the proposed forms with the insurance departments of all states. Departments in thirty-five states held public hearings and the policy terms that are the subjects of the complaints were discussed within the industry and in public forums. As a result ISO filed or lodged several revisions of its proposed forms with the state insurance departments. At the conclusion of the various states' proceedings in 1986, all of the plaintiff states and the two non-plaintiff states in which individual plaintiffs reside had approved the ISO forms with the following exceptions: Massachusetts and New Jersey disapproved them, New York approved only the occurrence form, and California and Colorado, having no procedure for approval, took no action. Thereafter ISO withdrew its data collection and risk estimation support for the pre-1984 CGL form.

In 1986, ISO and certain defendants agreed that ISO should also develop standard CGL umbrella and excess policy language. In June 1986 ISO released policy language providing for a retroactive date on claims-made policies, a pollution exclusion, and defense costs within policy limits.

Finally, in 1987 domestic and London retrocessional reinsurers [4] are alleged to have entered into an agreement regarding property insurance to use their "best endeavors to ensure that all U.S.A. and Canadian exposed [property] insurance/reinsurance business attaching on or after 1st January, 1987 will only be written where the original business includes a seepage and pollution exclusion wherever legal and applicable."

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[4] Retrocessional insurance is insurance for reinsurers.

III. THE FEDERAL LAW VIOLATIONS CHARGED

The state complaints fall into two groups depending on when they were filed. The First Wave Complaints each contain eight federal claims.[5] The Second Wave Complaints each contain six federal claims.[6] All complaints also contain pendent state law claims. The private complaints track the state complaints.

The First Claim of the Second Wave Complaints alleges a global conspiracy by all defendants in violation of Section One of the Sherman Act, 15 U.S.C. § 1,

> for the purpose and with the effect of shrinking the scope of CGL property/casuality insurance and reinsurance and retrocessional reinsurance, . . . to . . . reduce financial exposure to such risks and to increase underwriting profits therefrom.

(Conn.Compl't ¶ 117.) Plaintiffs allege that defendants used boycotts, coercion, and intimidation to limit available coverage. (*Id.* ¶ 118(a).) No corresponding claim is made in the First Wave Complaints.

The Second Claim of the Second Wave Complaints and the First through Fourth Claims of the First Wave Complaints allege a conspiracy by defendants Hartford, Allstate, Aetna, CIGNA, ISO, and certain others [7] to manipu-

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[5] First Wave Complaints were filed by Alabama, Arizona, California, Massachusetts, New York, West Virginia, and Wisconsin. Citations to First Wave Complaints are to the California complaint.

[6] Second Wave Complaints were filed by Alaska, Colorado, Connecticut, Louisiana, Maryland, Michigan, Minnesota, Montana, New Jersey, Ohio, Pennsylvania, and Washington. Citations to Second Wave Complaints are to the Connecticut complaint.

[7] The defendants named in these claims are as follows:

The Second Claim of the Second Wave Complaints alleges that defendants Robin A.G. Jackson, Merrett Syndicate, Three Quays, Janson Green, Edwards & Payne, C.J.W., Thomas A. Greene, R.K. Carvill, RAA, General Re, Constitution Re, Mercantile & General

late the ISO design process for CGL forms to limit the available coverage. Plaintiffs allege that defendants conspired to restrict the terms under which reinsurance coverage would be provided for CGL risks, to refuse to provide reinsurance unless the 1984 form were amended to incorporate defendants' terms, to coerce ISO and its members to adopt the coverage terms and exclusions agreed to by defendants, and to boycott the forms unless amended. (Conn.Compl't ¶¶ 122-123; Cal. Compl't ¶¶ 113-114, 118-119, 123-124, 128-129.)

The Third Claim of the Second Wave Complaints and the Fifth Claim of the First Wave Complaints in substance charge certain defendants [8] engaged in the reinsurance business at Lloyd's of London with a conspiracy to restrict the terms under which reinsurance coverage would be provided for CGL risks and to refuse to rein-

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Re, Prudential Re, North American Re, and Winterthur Swiss and other co-conspirators were involved. Louisiana also names INA.

The First Claim of the First Wave Complaints alleges concerted action by domestic defendants and also names RAA, General Re, Constitution Re, Mercantile & General Re, Prudential Re, North American Re, Winterthur Swiss, and Thomas A. Greene.

The Second Claim of the First Wave Complaints alleges concerted action by foreign defendants and also names Robin A.G. Jackson, Merrett Syndicate, Three Quays, Janson Greene, Edwards & Payne, C.J.W., J. Brian Hose, R.K. Carvill, and Thomas A. Greene. New York and Wisconsin do not name J. Brian Hose; Arizona does not name Robin A.G. Jackson.

The Third Claim of the First Wave Complaints alleges concerted action by domestic and foreign defendants and names the same defendants as in the First and Second Claims except for C.J.W. and J. Brian Hose.

The Fourth Claim of the First Wave Complaints alleges concerted action by domestic and foreign defendants and ISO and names the same defendants as in the Third Claim.

[8] Peter N. Miller, Robin A.G. Jackson, Merrett Syndicate, Three Quays, Janson Greene, Edwards & Payne, and Ballantyne McKean. Arizona does not name Peter N. Miller or Robin A.G. Jackson.

sure CGL risks on occurrence forms by coercion and intimidation of primary insurers, among other things. (Conn.Compl't ¶¶ 127-128; Cal.Compl't ¶¶ 133-134.)

The Fourth Claim of the Second Wave Complaints and the Sixth Claim of the First Wave Complaints in substance charge certain defendants [9] engaged in the reinsurance business at Lloyd's of London with a conspiracy to restrict the terms under which casualty reinsurance coverage would be provided for CGL risks and to limit the availability of pollution coverage in primary casualty insurance. No boycott, coercion, or intimidation is alleged. (Conn.Compl't ¶¶ 132-133; Cal.Compl't ¶¶ 138-139.)

The Fifth Claim of the Second Wave Complaints and the Eighth Claim of the First Wave Complaints in substance charge certain defendants [10] engaged in the reinsurance business at Lloyd's of London with a conspiracy to restrict the terms on which property insurance and reinsurance coverage would be provided and to limit its availability by, among other things, agreeing to boycott the provision of retrocessional insurance unless the primary insurance excluded seepage, pollution, and contamination coverage. Conn.Compl't ¶¶ 137-138; Cal.Compl't ¶¶ 148-149.)

The Sixth Claim of the Second Wave Complaints and the Seventh Claim of the First Wave Complaints charge ISO, Allstate, Hartford, Aetna, and certain other defendants [11] with a conspiracy to restrict terms and conditions under which umbrella and excess insurance would be

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[9] Merrett Syndicate, Murray Lawrence, Edwards & Payne, D.P. Mann, C.J.W., Unionamerica, Terra Nova, Oxford, CNA Re, and Ballantyne McKean. Wisconsin does not name CNA Re and does name Robin A.G. Jackson.

[10] Unionamerica, Terra Nova, Excess, Edwards & Payne, Kemper Re, Merrett Syndicate, and Continental Re. Oxford is named only in all the Second Wave Complaints except Alaska's. Wisconsin also names CNA Re.

[11] Merrett Syndicate and Three Quays. CIGNA is named only in the Second Wave Complaints. Louisiana also names INA.

available. No boycott, coercion, or intimidation is charged. (Conn.Compl't ¶¶ 142-143; Cal.Compl't ¶¶ 143-144.)

IV. THE MOTIONS BEFORE THE COURT

Defendants have filed five motions to dismiss or for summary judgment on the following grounds:

A. Asserting antitrust immunity under the McCarran-Ferguson Act, 15 U.S.C. §§ 1011-1015 ("the McCarran Act"), all defendants have moved under Federal Rules of Civil Procedure 12(b)(6) and 56 to dismiss or for summary judgment.

B. Asserting the state action immunity doctrine, all defendants have moved under Rule 56 for summary judgment against all plaintiffs except California, Alaska, Colorado, and Montana on (a) the so-called global conspiracy claim of the Second Wave complaints, and (b) the policy form development claims.

C. Asserting lack of standing, all defendants except ISO, INA, Hartford, Allstate, Aetna, and CIGNA have moved under Rule 12(b)(6) for dismissal of all claims against them. (This motion does not encompass the claims against Merrett and Three Quays alleging an agreement in restraint of trade in the excess and umbrella insurance market.)

D. Asserting that there is "no factual allegation linking [them] in a 'global' conspiracy," foreign reinsurer defendants have moved under Rule 12(b)(6) to dismiss the global conspiracy claim of the Second Wave complaints.

E. Asserting lack of subject matter jurisdiction and international comity, foreign reinsurer and retrocessional reinsurer defendants and one broker have moved under Rule 12(b)(1) to dismiss the two claims alleging conspiracies to eliminate pollution coverage.

The States have moved to strike the defense based on the state action immunity doctrine.

V. DISCUSSION

A. THE McCARRAN-FERGUSON ACT DEFENSE

Defendants have moved for summary judgment on all federal claims on the ground that their conduct is immunized from antitrust liability by the McCarran Act. Although the primary thrust of the motion is said to be directed at those claims which are based on policy form development activities, the controlling principles apply to defendants' underwriting-related actions as well.[12] Stripped of their pejorative allegations, those claims charge a conspiracy to reduce the exposure of defendant insurers and reinsurers under CGL policies. The defendants sought to accomplish their objective by bringing about changes in standard policy language and by avoiding underwriting or reinsuring risks written on disfavored policy terms. All of this they did in large part by collective action, and it may be assumed that plaintiffs could prove a consequent lessening of competition among defendants and a diminution of options available in the market for CGL insurance, resulting in a restraint of trade.

In the absence of the McCarran Act, those allegations may well state a claim for relief under the Sherman Act. The issue raised by these motions is whether plaintiffs could prove a set of facts under those general allegations that would entitle them to relief notwithstanding the McCarran Act.

That Act states:

> (a) The business of insurance, and every person engaged therein, shall be subject to the laws of the sev-

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[12] Those defendants who are named in claims asserting conspiracies in connection with the reinsurance markets have also moved to dismiss on other grounds. They join in this motion as an alternate ground for dismissal. *See infra* § V.C.

eral States which relate to the regulation or taxation of such business.

(b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance . . .: Provided, That . . . the Sherman Act, . . . the Clayton Act, and . . . the Federal Trade Commission Act . . . shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

15 U.S.C. § 1012.

Section 1013(b) of the Act further provides:

Nothing contained in this chapter shall render the . . . Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

The McCarran Act created limited antitrust immunity for the business of insurance following the Supreme Court's departure, in *United States v. South-Eastern Underwriters Association*, 322 U.S. 533, 64 S.Ct. 1162, 88 L.Ed. 1440 (1944), from prior holdings that insurance is not a transaction in interstate commerce. *See St. Paul Fire & Marine Ins. Co. v. Barry*, 438 U.S. 531, 538-39, 98 S.Ct. 2923, 2928-29, 57 L.Ed.2d 932 (1978). It was passed in response to widespread concern that the states should not be precluded from continuing to regulate and tax the insurance industry. It immunizes the business of insurance from the antitrust laws but only to the extent that it is regulated by the states and does not involve boycott, coercion, or intimidation. *See Feinstein v. Nettleship Co.*, 714 F.2d 928, 931 (9th Cir. 1983), *cert. denied*, 466 U.S. 972, 104 S.Ct. 2346, 80 L.Ed.2d 820 (1984). Like all antitrust immunities, it must, of course, be narrowly construed. *See Group Life & Health Ins. Co. v. Royal Drug Co.*, 440 U.S. 205, 231, 99 S.Ct. 1067, 1083, 59 L.Ed.2d 261 (1979).

The application of the McCarran Act immunity involves a three step analysis:

(1) Whether the conduct is within the scope of the business of insurance;

(2) Whether that business is regulated by the states; and

(3) Whether the conduct involves boycott, coercion, or intimidation.

(1) *The Business of Insurance*

In *Union Labor Life Insurance Co. v. Pireno*, 458 U.S. 119, 102 S.Ct. 3002, 73 L.Ed.2d 647 (1982), the Supreme Court stated the criteria for what constitutes the business of insurance for purposes of the McCarran Act as follows:

> *first*, whether the practice has the effect of transferring or spreading a policyholder's risk; *second*, whether the practice is an integral part of the policy relationship between the insurer and the insured; and *third*, whether the practice is limited to entities within the insurance industry.

458 U.S. at 129, 102 S.Ct. at 3009.

And in *Group Life & Health Insurance Co. v. Royal Drug Co.*, the Court said:

> References to the meaning of the "business of insurance" in the legislative history of the McCarran-Ferguson Act strongly suggest that Congress understood the business of insurance to be the underwriting and spreading of risk. Thus, one of the early House Reports stated: "The theory of insurance is the distribution of risk according to hazard, experience, and the laws of averages. These factors are not within the control of insuring companies in the sense that the producer or manufacturer may control cost factors."

440 U.S. at 220-21, 99 S.Ct. at 1078 (citation omitted).

Plaintiffs do not dispute that the activities of defendants insofar as they relate to the terms and conditions of primary, excess, or umbrella insurance, are the business of insurance within the meaning of the McCarran Act. (*See* Plaintiff States' Unified Opposition Brief ("Unified Opp.") 37-40.) They contend, however, that reinsurance is not the business of insurance because it relates only indirectly to the spreading of the policyholder's risk and because, they contend, it is not an integral part of the policy relationship between the insurer and the insured. (*Id.*)

There is no authority for excluding reinsurance from the business of insurance. On the contrary, reinsurance was specifically referred to as a part of the business of insurance in the legislative history of the McCarran Act. *See* 90 Cong. Rec. A4406 (1944); 89 Cong.Rec. 6528 (1943). The Ninth Circuit applied the McCarran exemption to reinsurers as well as to the primary insurer in *Feinstein.* 714 F.2d at 930.

Plaintiffs urge an unreasonably narrow application of the *Pireno* test. Their own description establishes that reinsurance is an integral and vital part of the business of insurance. The complaints define reinsurance as "insurance for insurers." (*E.g.*, Conn.Compl't ¶ 4(p); Cal. Compl't ¶ 4(*o*).) They go on to describe reinsurance as

> a transaction whereby one insurance company, the reinsurer, agrees to indemnify another insurance company, the primary (or "ceding") insurer, for a designated portion of the insurance risks underwritten by the primary insurer. Reinsurance protects the primary insurer from catastrophic losses, and is heavily relied upon by prudent primary insurers. It also allows the primary insurer to sell more insurance than its own financial capacity might otherwise permit. Thus, the availability of reinsurance affects the ability and willingness of primary insurers to provide insurance to their customers.

(Conn.Compl't ¶ 4(p); *see also* Cal.Compl't ¶¶ 26-29, 34.)

Thus, reinsurance is no less a part of the process of underwriting and spreading risks than primary insurance. Plaintiffs' allegations rests, moreover, on the premise that the terms on which reinsurance is available affect the terms on which primary insurance is written and that the terms and availability of reinsurance directly affect the availability of insurance coverage to consumers. (Unified Opp. 13-16.) As plaintiffs' brief puts it, "by conspiracy to eliminate reinsurance for the consumer-demanded coverages, the reinsurers acted anticompetitively in reinsurance markets . . . [which] led inexorably to an injury to the States in the interrelated primary insurance markets." (*Id.* at 76.) Because reinsurance is thus an element of the policy relationship with the insured, it is part of the business of insurance. *See also SEC v. National Sec., Inc.*, 393 U.S. 453, 460, 89 S.Ct. 564, 568, 21 L.Ed.2d 668 (1960) (business of insurance includes "activities of insurance companies [that] relate . . . closely to their status as reliable insurers").

By the same logic, retrocessional insurance, which is "insurance for reinsurers" (Conn.Compl't ¶ 4(r)), is part of the business of insurance.[13]

(2) *Regulation by the States*

The condition of state regulation is satisfied by "a state regulatory scheme possess[ing] jurisdiction over the challenged practice." *Feinstein*, 714 F.2d at 933. "It is not necessary to point to a state statute which gives express approval to a particular practice." *Id.; see Klamath-Lake Pharmaceutical Ass'n v. Klamath Medical Service Bureau*, 701 F.2d 1276, 1287 (9th Cir.), *cert. denied*, 464 U.S. 822, 104 S.Ct. 88, 78 L.Ed.2d 96 (1983); *Dexter v.*

[13] The argument that the exemption is lost as a result of joint action with non-exempt entities is without merit. *Klamath-Lake Pharmaceutical Association v. Klamath Medical Service Bureau*, 701 F.2d 1276, 1288 n. 12 (9th Cir.), *cert. denied*, 464 U.S. 822, 104 S.Ct. 88, 78 L.Ed.2d 96 (1983).

Equitable Life Assur. Soc., 527 F.2d 233, 236 (2d Cir. 1975); *Lawyers Title Co. of Mo. v. St. Paul Title Ins. Co.*, 526 F.2d 795, 797-98 (8th Cir. 1975); *Ohio AFL-CIO v. Insurance Rating Bd.*, 451 F.2d 1178, 1181-84 (6th Cir. 1971), *cert. denied*, 409 U.S. 917, 93 S.Ct. 215, 34 L.Ed.2d 180 (1972); *see also* P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 210.1b (Supp. 1988) (McCarran immunity distinguished from *Parker v. Brown* immunity; the former requiring only the existence of a state regulatory scheme, without regard to the intensity of state regulation).

This case involves the insurance business in twenty-one states.[14] The Ninth Circuit has held that California's scheme of regulation satisfies the McCarran Act. *Addrisi v. Equitable Assur. Soc. of the United States*, 503 F.2d 725, 728 (9th Cir. 1974), *cert. denied*, 420 U.S. 929, 95 S.Ct. 1129, 43 L.Ed.2d 400 (1975). The Court takes judicial notice of the laws of the other jurisdictions.[15] Each state has an insurance department with jurisdiction over policy forms. Sixteen of the plaintiff states and the two nonplaintiff states in which private plaintiffs reside require filing and review of policy forms, including umbrella and excess policies offered by admitted insurers. All of the states have licensed ISO and permit joint action by ISO and insurance companies with respect to policy forms. All of the states have unfair insurance trade practice statutes enabling them to proceed against conduct such as that alleged in the complaints. Although plaintiffs contend that reinsurance and umbrella and excess insurance are not regulated by the states, these statutes are broad enough to apply to any persons in the business

[14] The nineteen plaintiff states plus Florida and Illinois, the two non-plaintiff states in which private plaintiffs reside.

[15] See Defendants' State-by-State Appendix accompanying their McCarran Act motion. The facts set forth in this paragraph have not been disputed in plaintiffs' opposition brief.

of insurance, including reinsurers.[16] These statutory schemes are sufficient to qualify under section 1012(b) of the McCarran Act. *See SEC v. National Securities, Inc.*, 393 U.S. 453, 459-60, 89 S.Ct. 564, 568-69, 21 L.Ed.2d 668 (1969) (state laws protecting or regulating, directly or indirectly, relationship between insurer and policy holder qualify); *FTC v. National Cas. Co.*, 357 U.S. 560, 564-65, 78 S.Ct. 1260, 1262, 2 L.Ed.2d 1540 (1958) (state unfair insurance advertising laws qualify); *Mackey v. Nationwide Ins. Co.*, 724 F.2d 419, 421 (4th Cir. 1984) (state unfair insurance practice laws that provide for administrative supervision and enforcement qualify).

Plaintiffs' argument that the regulatory schemes of the states do not reach the allegations of subversion of ISO's decision-making process and concerted activity to restrict the availability of coverages in the market is self-defeating. To avoid McCarran Act immunity, plaintiffs rely on allegations of boycott, coercion, and intimidation, and contend that this conduct is prohibited by the states. That prohibition is indeed contained in the unfair practice acts of each state, but the fact that it is satisfies the regulation prerequisite to immunity under section 1012.[17] *See*

[16] Cal.Insur.Code § 790.01 is typical:

> This article applies to reciprocal and inter-insurance exchanges, Lloyds insurers, fraternal benefit societies, fraternal fire insurers, grants and annuities societies, insurers holding certificates of exemptions, motor clubs, nonprofit hospital associations, agents, brokers, solicitors, surplus line brokers and special lines surplus line brokers as well as *all other persons engaged in the business of insurance.*

(Emphasis added.)

[17] Cal.Insur.Code § 790.03(c) is typical:

> Entering into any agreement to commit, or by any concrete action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

In re Workers' Comp. Ins. Antitrust Litig., 867 F.2d 1552, 1558-60 (8th Cir.), *cert. denied*, ——U.S. ——, 109 S.Ct. 3247, 106 L.Ed.2d 593 (1989).

Plaintiffs' argument that the standards for state action immunity under *Parker v. Brown*, 317 U.S. 341, 63 S.Ct. 307, 87 L.Ed. 315 (1943), should apply to the McCarran Act lacks any support. As Professors Areeda and Hovenkamp point out, if the regulatory requirements under McCarran "were to coalesce with the *Parker* requirements, the scope of the McCarran-Ferguson Act would be largely irrelevant as a practical matter." P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 210.1b, at 97 (Supp. 1988). (*See infra* § V.B.(1).) Such an interpretation would tend to nullify Congressional intent in adopting the McCarran Act.

(3) *The Exclusion of Boycott, Coercion, and Intimidation*

The States have submitted a Statement of Material Facts in support of their unified opposition brief. (Unified Opp. 6-16.) The following facts are material to this section of the opinion.

Twenty of the defendants, including primary insurers, reinsurers, brokers, and underwriters, dissatisfied with the CGL forms approved by ISO in 1984 because those forms failed to eliminate occurrence and pollution coverage, "agreed to and undertook a course of concerted action" to limit the availability of certain CGL coverages, and twelve other defendants ultimately joined in. (*Id.* at 10-11.) This course of action included the following activities. To coerce ISO into revising its 1984 CGL forms, defendant reinsurers agreed to and did announce that reinsurance would not be provided for coverage written on the 1984 form. (*Id.* at 11.) In addition, certain defendants took "coercive action" by agreeing to announce and announcing that they would not provide reinsurance on occurrence policies and would impose sunset clauses in

their coverage.[18] (*Id.* at 12.) Certain defendants took "coercive action" by agreeing to include and including a pollution exclusion in their reinsurance treaties. (*Id.* at 13-14.) Certain defendants made a "coercive statement of intention not to provide reinsurance unless the primary policy excludes all property pollution coverage." (*Id.* at 14-15.) Finally, certain defendants agreed to eliminate the same coverage from excess and umbrella policy forms. (*Id.* at 15-16.) And ISO withdrew statistical support for its 1973 form. (*Id.* at 12.)

It will be noted that plaintiffs' statement does not allege a boycott. Nor does it (or the complaints) describe conduct that "accords with the common understanding of a boycott." *St. Paul Fire & Marine Ins. Co. v. Barry*, 438 U.S. 531, 552, 98 S.Ct. 2923, 2935, 57 L.Ed.2d 932 (1978). As the Supreme Court described the conduct there in issue,

> The four insurance companies that control the market in medical malpractice insurance are alleged to have agreed that three of the four *would not deal on any terms with the policyholders* of the fourth. As a means of ensuring policyholder submission to new, restrictive ground rules of coverage, St. Paul obtained the agreement of the other petitioners, strangers to the immediate dispute, *to refuse to sell any insurance to its policyholders.* "A valuable service germane to [respondents'] business and important to their effective competition with others was withheld from them by collective action."
>
> The agreement binding petitioners *erected a barrier between St. Paul's customers and any alternative source* of the desired coverage, effectively foreclosing all possibility of competition anywhere in the relevant market. *This concerted refusal to deal went well be-*

[18] A "sunset clause" limits the reinsurer's liability to those claims presented to it by the primary insurer prior to a specified date.

> *yond a private agreement to fix rates and terms of coverage*, as it denied policyholders the benefits of competition in vital matters such as claims policy and quality of service.

Id. at 552-53, 98 S.Ct. at 2935-36 (citation omitted) (emphasis added).

In contrast, plaintiffs here charge no more than an agreement to restrict coverage. But they seek to piggyback this charge on conclusory allegations of pressure and compulsion that echo *Barry*. The decision in *Barry*, however, turned not on the pressure and compulsion directed at policy holders to submit to curtailed coverage, but on the agreement with competitors not to deal with those policy holders on any terms. As the Court said:

> Solely for the purpose of forcing physicians and hospitals to accede to a substantial curtailment of the coverage previously available, St. Paul induced its competitors to refuse to deal on any terms with its customers. *This agreement did not simply fix rates or terms of coverage;* it effectively barred St. Paul's policyholders from all access to alternative sources of coverage and even from negotiating for more favorable terms elsewhere in the market. The pact served as a tactical weapon invoked by St. Paul in support of a dispute with its policyholders. *The enlistment of third parties in an agreement not to trade, as a means of compelling capitulation by the boycotted group, long has been viewed as conduct supporting a finding of unlawful boycott.*

Id. at 544-45, 98 S. Ct. at 2931 (emphasis added).

Thus, the issue is not whether defendants used pressure to reduce the coverage available to buyers of insurance. The issue is whether they entered into concerted refusals to deal that denied consumers access to the markets for the desired coverages. The Ninth Circuit explained the meaning of boycott in *Feinstein:* "Because [the agreement] in no way limited the doctors' ability to deal with third parties, the agreement itself is not an agreement to boycott or coerce the plaintiff to purchase the defendants' insurance." 714 F.2d at 933.

The distinction between lawful joint action and prohibited boycott and coercion is also explained in *Proctor v. State Farm Mutual Automobile Insurance Co.*, 561 F.2d 262 (D.C. Cir. 1977):

> The facts in *South-Eastern Underwriters* are a useful guidepost. Logically speaking, a simple agreement among insurance companies to charge certain premium rates could be viewed as a boycott agreement, since its observance would result in a collective refusal to deal with policyholders except at a fixed price. But the Supreme Court's opinion in *South-Eastern Underwriters* did not characterize the basic rate-fixing agreement in that case in terms of "boycott, coercion, or intimidation"; those terms were reserved for the additional activities utilized to enforce the agreement. Since the McCarran Act was passed in response to *South-Eastern Underwriters*, and since a construction of the boycott provision to encompass a simple rate-fixing agreement would indeed emasculate the Act's antitrust exemption, it is reasonable to infer that in a state-setting context something in the way of enforcement activity would be required to make out a claim of "boycott, coercion, or intimidation" within the meaning of the Act.

Id. at 274 (citation omitted).[19]

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[19] The *Proctor* court referred to the Supreme Court's opinion in *United States v. South-Eastern Underwriters Association*, 322 U.S. 533, 64 S.Ct. 1162, 88 L.Ed. 1440 (1944), which described the conduct of defendants as consisting of coercion and intimidation to force non-member insurance companies into the conspiracies and to compel persons who needed insurance to buy only from South-Eastern Underwriters on its terms.

This interpretation of boycott and coercion has been consistently followed, in the context of coverage as well as rates. *See, e.g., Meicler v. Aetna Cas. and Sur. Co.*, 506 F.2d 732, 734 (5th Cir. 1975) (parallel actions of insurance companies to refuse to offer insurance except under rate regulation scheme adopted by state not a boycott); *UNR Indus. Inc. v. Continental Ins. Co.*, 607 F. Supp. 855, 862-63 (N.D. Ill. 1984) (conspiracy among insurance companies to refuse to offer occurrence policies not a boycott); *Grant v. Erie Ins. Exch.*, 542 F.Supp. 457, 464-66 (M.D. Pa. 1982) (conspiracy to refuse to offer insurance covering work loss benefits of individuals killed in motor vehicle accidents not a boycott) *aff'd mem.*, 716 F.2d 890 (3d Cir.), *cert. denied*, 464 U.S. 938, 104 S.Ct. 349, 78 L.Ed.2d 314 (1983).

Professors Areeda and Hovenkamp concur with this view and reject the interpretation of *Barry* urged by plaintiffs:

> The implications of *St. Paul* are not clear. On the one hand, a horizontal agreement among competitors to set the terms of insurance policies—for example, price fixing—is a collective agreement not to deal on any other terms; by the agreement, each enlists the aid of the other, a third party, "to compel capitulation by the boycotted group," namely, insurance buyers. In this sense, virtually any horizontal agreement among competitors could be called a "boycott."
>
> However, there are two reasons for supposing that the Supreme Court did not mean to go that far. First, such a reading would eviscerate the immunity for horizontal agreements on the "business of insurance" and thus seems inconsistent with the statute. Second, *St. Paul* itself did involve an agreement to adopt similar terms. Instead, it was alleged that three insurers withdrew from the market for an anticompetitive purpose.

P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 210.2, at 107-08 (Supp. 1988).

The gravamen of the cases before the Court is alleged horizontal agreements relating to the terms on which the participants were willing to write insurance and reinsurance. By joint action in the ISO and in the reinsurance and umbrella and excess insurance markets, the various defendants sought to bring about the use of policies that would limit their exposure. There is no charge and no evidence that any defendants conspired to refuse to do business with any person or firm to achieve their objectives, or that by other improper means they enforced their collective decisions against others.[20]

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[20] At the hearing, plaintiffs argued that ISO's withdrawal of statistical support for the 1973 policy forms after regulatory approval had been given by the relevant states to new forms amounted to coercion. The complaints allege in relevant part:

> On July 1, 1987, ISO officially withdrew "support" of the 1973 CGL form. "Support" in this context includes the normal data collection and actuarial services performed by ISO in aid of its member companies. Without such support, most ISO members could not continue to use the 1973 occurrence form, because it is very difficult and expensive for any single company to duplicate the critical ISO support functions. (Cal. Compl't ¶ 99; Conn.Compl't ¶ 103.)

The conduct alleged, termination of statistical support for a superseded policy form, is on its face reasonable conduct that one would expect in the normal course of business. There is nothing inherently coercive or wrongful about it. There is no allegation that any insurer desired to continue to write insurance on the 1973 policy form but was coerced by defendants into not doing so by means of this conduct, and plaintiffs did not offer to amend their complaints or conduct specific discovery on this point. The allegation that "most ISO members" would find it "difficult and expensive . . . to duplicate the critical ISO support functions" is not sufficient to warrant subjecting these defendants to an antitrust action. *See Ocean State Physicians Health Plan Inc. v. Blue Cross & Blue Shield of Rhode Island*, 883 F.2d 1101, 1109 n.9 (1st Cir.1989) ("Coercion [under the McCarran Act] has not generally been interpreted to include situations where options have not been entirely closed off to the allegedly coerced parties, even though such options may have been made more expensive"). To hold otherwise would be somewhat ironic, for it is the McCarran Act that allows the insur-

The distinction between prohibited boycott and coercion and immune joint activities is illustrated by *In re Workers' Compensation Insurance Antitrust Litigation*, 867 F.2d 1552 (8th Cir.), *cert. denied*, —— U.S. ——, 109 S.Ct. 3247, 106 L.Ed.2d 593 (1989). That court held that "the practice of mere price fixing,-i.e. a refusal to deal except at a specified price, without more," is not a McCarran Act boycott. *Id.* at 1561. "The crucial element . . . [of a boycott] is an effort to exclude or cause disadvantage to one or more competitors by cutting them off from trade relationships which are necessary to any firm trying to compete." *Id.* at 1561, n. 14 (quotation omitted). In reversing a grant of summary judgment of no boycott, the *Workers' Compensation* court relied on evidence of an agreement to exclude competing insurers from membership in the Minnesota Rating Association; such membership was required by Minnesota law as a condition to writing workers' compensation insurance in the state. *Id.* at 1563. In contrast, in the instant case the allegations are limited to collective refusals to do business except upon terms acceptable to defendants. There is not even a suggestion that any underwriter or reinsurer (or anyone else) was prevented from having free and unimpaired access to any market.

The purpose of McCarran Act immunity is to permit joint action by insurers and underwriters within the states' regulatory schemes to formulate policy terms and determine coverage. While it is not a necessary part of the policy development process that the participants would then offer substantially similar policies to the public, it is a consequence that could be reasonably anticipated. To subject the participants in the collective form development

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ance industry, including defendants, to provide through ISO the suport functions which plaintiffs regard as critical; it makes little sense then to impose antitrust liability on defendants, who are permitted by the McCarran Act to agree to provide the support, for agreeing to discontinue it as to a policy form no longer in use.

process to the risk of antitrust liability for using the product of that process would effectually nullify the McCarran Act. It makes no sense, therefore, for the plaintiffs to rest their boycott claim on the allegation of such an agreement. It is also implicit that joint action comprehends efforts to seek agreement by others, including those who might be unwilling to agree were it not for economic exigencies, and again it makes no sense to assert that such efforts constitute non-immune coercion.

What the McCarran Act leaves unprotected is conduct which goes beyond the making and implementation of agreements to do business only on terms acceptable to the participant (even if such agreements would otherwise violate Section 1), such as refusals to deal on any terms and exclusion from alternative sources. *See Barry*, 438 U.S. at 544-45, 98 S.Ct. at 2931. Such conduct is not charged here.

Dismissal of a complaint for failure to state a claim is not proper unless it appears beyond doubt that the plaintiff can prove no set of facts in support of its claim which would entitle it to relief. *Conley v. Gibson*, 355 U.S. 41, 45-46, 78 S.Ct. 99, 101-102, 2 L.Ed.2d 80 (1957). But judgment of dismissal is appropriate if it is clear that no relief could be granted under any set of facts that could be proven consistent with the allegations. *McGlinchy v. Shell Chemical Co.*, 845 F.2d 802, 810 (9th Cir. 1988). Conclusory allegations without more are insufficient to defeat a motion to dismiss for failure to state a claim. *Id.*

Under the well-pleaded allegations of these complaints, plaintiffs could prove no boycott or coercion. Plaintiffs do not suggest that their pleadings could be amended to cure their deficiencies.

Nor have plaintiffs come forward with specific facts which raise a triable issue as to boycott or coercion. And this is true though plaintiffs in their capacity as

state regulators conducted lengthy investigations under their regulatory laws which gave them extensive access to the files and records at least of the domestic defendants as well as to other sources of relevant information. Plaintiffs have been given the opportunity also to conduct relevant discovery and have not suggested that they needed discovery to be able fairly to meet this motion.

Accordingly, all defendants are entitled to dismissal of the complaints without leave to amend, or in the alternative summary judgment (considering defendants' submissions outside the pleadings), on all federal law claims in the various complaints. In addition all defendants are entitled to judgment on the Sixth and Seventh Claims of the First Wave Complaints and the Fourth and Sixth Claims of the Second Wave Complaints for failure to allege boycott, coercion, or intimidation. *See Freier v. New York Life Ins. Co.*, 679 F.2d 780, 783 (9th Cir. 1982).

The foreign reinsurer defendants named in the Fifth, Sixth, and Eighth Claims of the First Wave Complaints and the Third, Fourth, and Fifth Claims of the Second Wave Complaints have joined in this motion as an alternate ground for dismissal. They have also made a motion to dismiss on the ground of international comity which the Court grants. (*See infra* § V.E(3).) Because that motion rests on the proposition that those defendants are not subject to the antitrust laws, it raises the question whether, as a result, they also are not subject to state regulation to a degree sufficient to be entitled to McCarran Act immunity. It does not appear necessary to resolve that issue here, however; if the dismissal on comity grounds is sustained, the alternative ground for dismissal under the McCarran Act will be moot. Conversely, if it is not sustained, it will be because American regulatory laws apply to them and hence the McCarran Act as well.

B. STATE ACTION IMMUNITY, STATUTORY INTERPRETATION, AND CAUSATION

Defendants have moved for summary judgment with respect to those claims which "relate to the collective form-making process in those states that took action to approve, disapprove or withhold approval of the revised ISO CGL forms." (Def. Memo. 1.) This motion, therefore, is limited in its scope; it does not reach conduct outside of the collective activities to revise the CGL policy forms and it does not apply to plaintiff states, or plaintiffs in states, that do not have a procedure for approval, disapproval, or withholding approval of policy forms, namely Alaska, California, Colorado, and Montana. Because plaintiffs' opposition memorandum either misconceives or ignores the narrow scope of this motion, its arguments are in large part irrelevant.

(1) *State Action Immunity*

In *Parker v. Brown*, 317 U.S. 341, 63 S.Ct. 307, 87 L.Ed. 315 (1934), the Supreme Court held that the Sherman Act was not intended to prohibit states from imposing restraints on competition. The circumstances under which this state action immunity extends to private parties were defined in *California Retail Liquor Dealers Association v. Midcal Aluminum, Inc.*, 445 U.S. 97, 100 S.Ct. 937, 63 L.Ed.2d 233 (1980): "First, the challenged restraint must be 'one clearly articulated and affirmatively expressed as state policy,' and, second, the State 'must supervise actively any private anticompetitive conduct.'" 445 U.S. at 105, 100 S.Ct. at 943 (quoting *City of Lafayette v. Louisiana Power & Light Co.*, 435 U.S. 389, 410, 98 S.Ct. 1123, 1135, 55 L.Ed.2d 364 (1978) (Brennan, J.)).

(a) State Policy

There is no question that all of the states have clearly articulated and affirmatively expressed policies permitting collective policy form development activities. Each of the

states has licensed ISO and its members to engage in certain collective activities, including filing of rates and policy forms and developing policy forms.

These actions are governed by *Southern Motor Carriers Rate Conference v. United States*, 471 U.S. 48, 105 S.Ct. 1721, 85 L.Ed.2d 36 (1985). There the Supreme Court applied state action immunity to collective rate making activities under state laws permitting—but not requiring—motor carriers to agree on rates subject to the supervision of the state public services commission having authority to accept, reject, or modify the agreed rates. The same situation is presented here. The states have authorized the insurers to agree on policy forms subject to the supervisory authority of the insurance regulators. Most of the states require regulatory approval before a form may be used; others permit a form to be used unless or until the regulators disapprove it. (Def.Memo. 5-6.) And here, as in *Southern Motor Carriers Rate Conference*, insurers were not required to participate in the collective activities of ISO and were free to use policies other than those developed and sponsored by ISO.

Plaintiffs argue that the states have authorized only voluntary joint action, not coercion or boycotts. But the fact that the states prohibit coercion and boycotts does not diminish the immunity flowing from the authority to conduct collective policy development activities. That immunity depends on the presence of active state supervision, as discussed below, and the states' prohibition of coercion and boycott is simply one aspect of this supervision. To argue that the presence of such state law prohibitions nullifies the state action immunity would be to turn the doctrine on its head. The premise of that doctrine is that it immunizes conduct that might otherwise run afoul of the antitrust laws. It does so "to resolve conflicts that may arise between principles of federalism and the goal of the antitrust laws, unfettered competition in the marketplace." *Southern Motor Carriers Rate Conference*, 471 U.S. at 61, 105 S.Ct. at 1729. It achieves that end by allowing states "to adopt policies that permit, but do not compel, anticompetitive conduct by regulated private parties." *Id.* at 66, 105 S.Ct. at 1731. Under the regulatory schemes of the relevant states, insurers are permitted to engage in collective policy development but are not required to do so or to adopt the collectively produced policies; activities directed to an insurer's individual decision what coverage to offer, as distinct from what terms to include in ISO policy forms, are not claimed to be covered by state action immunity and are not addressed by this motion.

Plaintiffs' reliance on *Medic Air Corp. v. Air Ambulance Authority*, 843 F.2d 1187 (9th Cir. 1988), is misplaced. That case held that defendant did not, by reason of having been designated by the state as an exclusive ambulance dispatcher, become immune against a claim that it had restrained competition in the market for air ambulance services. The immunity which attached to dispatch services did not extend to activities in the separate and distinct market for ambulance services. But that reasoning does not apply where, as here, the restraint complained of occurred (though not exclusively) in the course of the protected conduct, i.e. the collective development of terms for policies to be issued by the participating insurers, which was exactly what the states permitted to be done.

(b) State Supervision

State action immunity applies only where the state actively supervises "to ensure that [it] will shelter only the particular anticompetitive acts of private parties that, in the judgment of the State, actually further state regulatory policies." *Patrick v. Burget*, 486 U.S. 94, 108 S.Ct. 1658, 1663, 100 L.Ed.2d 83 (1988). Plaintiffs argue that state supervision in this case does not reach the restraints alleged, i.e., "the agreements and acts to limit or eliminate the availability of consumer-demanded coverages."

(Unified Opp. 58.) But in *Patrick*, the Court specifically referred to the state public service commission's "ultimate authority and control over all intrastate rates" in *Southern Motor Carriers Rate Conference* as an example of what constitutes active supervision. *Id.* (quoting *Southern Motor Carriers Rate Conference*, 471 U.S. at 51, 105 S.Ct. at 1723). As noted above, there, as here, supervision took the form of approval, disapproval, or modification of the end product of the collective action. That degree of supervision was sufficient protection of the public interest, without the necessity of additional supervision of the manner in which the participants conducted the collective process.

Plaintiffs contend that, even if the state action immunity otherwise applied, its application here is barred by the McCarran Act which, they contend, specifically reserves application of the Sherman Act to boycott and coercion. *Cf. Ballard v. Blue Shield of Southern W. Va., Inc.*, 543 F.2d 1075, 1078-79 (4th Cir. 1976), *cert. denied*, 430 U.S. 922, 97 S.Ct. 1341, 51 L.Ed.2d 601 (1977). The two immunity doctrines are not congruent and need to be distinguished with care. The McCarran Act, as discussed in section V.A., *supra*, grants to the insurance business a limited immunity from the antitrust laws, conditioned on a degree of state regulation. State action immunity, as discussed here, permits the states to displace the antitrust laws with respect to specified activities actively supervised by the states. *See generally* P. Areeda & H. Hovenkamp, *Antitrust Law* ¶¶ 210.1b, 212.1f, at 113 (Supp. 1988) ("The [Supreme] Court's view of federalism [under *Parker v. Brown*] has left enormous discretion to the states to displace competition."). Plaintiffs' contention was most recently addressed and rejected in *Health Care Equalization Committee v. Iowa Medical Society*, 851 F.2d 1020, 1027 n. 10 (8th Cir. 1988), where the court stated that it would be anomalous to hold that Congress, by adopting the McCarran Act, intended to subject

insurance companies to antitrust liability for actions that would be exempt if engaged in by others.

The state action immunity motion must therefore be granted.

(2) *Statutory Interpretation*

Defendants also contend that because the effects complained of resulted from the actions of the states which approved the use of the revised policy forms, there could have been no restraint of trade. Their reliance on *In re Airport Car Rental Antitrust Litigation*, 521 F.Supp. 568 (N.D. Cal. 1981), *aff'd.*, 693 F.2d 84 (9th Cir. 1982), *cert. denied*, 462 U.S. 1133, 103 S.Ct. 3114, 77 L.Ed.2d 1368 (1983), is, however, misplaced. The restraint complained of in that case flowed from the decision of airport authorities not to lease space to plaintiffs. The fact that that decision may have been influenced by a conspiracy among defendants did not make the defendants responsible for the airport authorities' independent exercise of judgment to exclude plaintiffs. In the instant actions, however, the restraints complained of did not flow from the actions of state regulators who approved or disapproved policy forms; they flowed from the collective actions of defendants by which they allegedly sought to bring about the use of policy forms that restricted available insurance coverage. To the extent that their conduct is not immune from antitrust scrutiny, defendants would be responsible for its consequences.

Defendants also argue that plaintiffs cannot demonstrate the existence of a restraint in the policy form development process. (Reply 1-10.) The argument seems to rest on confusion between Sherman Act liability and the effect of the McCarran Act. There is little question that, in the absence of McCarran Act immunity, allegations of collective action by defendants to bring about reduced coverage for purchasers of insurance would state a claim under Section 1:

> There is no doubt that the members of such [trade] associations often have economic incentives to restrain competition and that the product standards set by such associations have a serious potential for anticompetitive harm. Agreement on a product standard is, after all, implicitly an agreement not to manufacture, distribute, or purchase certain types of products. Accordingly, private standard-setting associations have traditionally been objects of antitrust scrutiny.

Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 108 S.Ct. 1931, 1937, 100 L.Ed.2d 497 (1988). It would not matter for purposes of Section 1 that, as defendants argue, the collective action of defendants did not limit an individual insurer's ability to offer broader coverage. (Reply 5.) The individual insurer's continued freedom is relevant only to application of Section 1013(b) of the McCarran Act, the boycott exclusion, not to liability for anti-competitive agreements.

The motion based on statutory interpretation must therefore be denied.

(3) *Causation*

The foregoing analysis also disposes of defendants' contention that plaintiffs were not injured "by reason of anything forbidden in the antitrust laws." 15 U.S.C. § 15(a). No states required insurers to adopt the approved forms. Hence, injury flowing from prohibited collective action to coerce competitors to restrict coverage or deny consumers access to insurance coverage, unless otherwise immune, would fall within Section 4 of the Clayton Act.

There being no disputed issues of fact material to the disposition of this motion, and for the reasons stated, defendants' motion for summary judgment on all claims based on defendants' participation in the collective policy development process asserted by states, and plaintiffs in states, other than Alaska, California, Colorado, and Montana must be granted on the ground of state action immunity, but will otherwise be denied.

C. STANDING

The domestic and foreign reinsurer defendants[21] have moved to dismiss the complaints against them on the ground that plaintiffs do not have standing to complain of actions taken in the reinsurance and retrocessional insurance markets.[22]

The reinsurer defendants characterize the complaints as alleging three distinct insurance markets: primary insurance, reinsurance, and retrocessional insurance. They contend that plaintiffs claim to have participated only in the primary insurance market and that the defendant reinsurers are alleged to have conspired only in the reinsurance and retrocessional insurance markets. On this basis, defendants contend that plaintiffs do not claim to have been directly affected by the alleged conduct of these defendants and that, therefore, plaintiffs do not have standing to assert the antitrust claims pleaded.

To have standing to assert an antitrust claim, a plaintiff must allege that it has suffered harm as a direct result of the defendant's conduct and that this harm is within the scope of the protection of the antitrust laws. *Blue Shield of Virginia v. McCready*, 457 U.S. 465, 478, 102 S.Ct. 2540, 2547, 73 L.Ed.2d 149 (1982). Accepting, as the Court must, the allegations of the complaint, they establish that the terms and availability of reinsurance directly affect the availability of insurance coverage to consumers. As discussed in section V.A.(1), *supra*, plaintiffs' contention is that the reinsurers' alleged conspiracy

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[21] All defendants other than ISO, INA, Hartford, Allstate, Aetna, and CIGNA.

[22] This motion does not include the claims against Merrett and Three Quays alleging an agreement in restraint of trade in the excess and umbrella insurance market.

to eliminate reinsurance for certain CGL coverages "led inexorably to an injury . . . in the interrelated primary insurance market."

The claims against these defendants therefore fall within the analysis in *McCready*, in which a Blue Cross subscriber was found to have standing to challenge an alleged conspiracy between Blue Cross and psychiatrists to deny reimbursement of psychologists' services. Though the restraint occurred in a market (the market for psychiatrists' services) in which plaintiff was not a consumer, the Court reasoned that plaintiff had standing:

> McCready claims that she has been the victim of a concerted refusal to pay on the part of Blue Shield, motivated by a desire to deprive psychologists of the patronage of Blue Shield subscribers. Denying reimbursement to subscribers for the cost of treatment was the very means by which it is alleged that Blue Shield sought to achieve its illegal ends. The harm to McCready and her class was clearly foreseeable; indeed, it was a necessary step in effecting the ends of the alleged illegal conspiracy. Where the injury alleged is so integral an aspect of the conspiracy alleged, there can be no question but that the loss was precisely " 'the type of loss that the claimed violations . . . would be likely to cause.' "

457 U.S. at 479, 102 S.Ct. at 2548 (citations omitted). And that was true even though plaintiff's plan coverage was purchased and paid for by her employer; as a consumer of psychotherapy services, she nevertheless was within the area of the economy threatened by a breakdown of competitive conditions resulting from Blue Cross's refusal to reimburse for services she desired.

Plaintiffs' allegations suffice to establish agreements the direct effect of which, if true, would be to restrain the availability of desired coverages in the markets in which plaintiffs purchase insurance. *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 103 S.Ct. 897, 74 L.Ed.2d 723 (1983), is distinguishable. There the plaintiff unions complained of a conspiracy by defendants to abrogate or weaken the collective bargaining relationship between the unions and employers. As the Court there observed, "the Union was neither a consumer nor a competitor in the market in which trade was restrained." *Id.* at 539, 103 S.Ct. at 909. And it was "not clear" whether the Union's interests would be served or disserved by enhanced competition in that market. Moreover, the claim of causation between the Union's injury and the alleged restraint contained "somewhat vaguely defined links." *Id.* at 540, 103 S.Ct. at 909.

On the face of the allegations, plaintiffs have standing. The motion based on lack of standing must be denied.

D. GLOBAL CONSPIRACY CLAIM

Foreign reinsurer defendants have moved to dismiss the First Claim of the Second Wave Complaints, the so-called global conspiracy claim. That claim alleges that all defendants, including the moving defendants, engaged in a conspiracy to restrain the market for CGL property and casualty risks and for reinsurance and retrocessional reinsurance by agreeing to limit or eliminate occurrence, pollution, retroactive, and long-tail coverage, which are the subjects of the allegations of the complaints. In other words, this claim links all of the various specific claims of wrong-doing by various groups of defendants in various markets to allege one global conspiracy among all defendants.

The moving defendants are foreign reinsurers doing business in London. They are named in the Second, Third, and Sixth claims of the Second Wave Complaints in connection with discrete conspiracy claims. They make this motion on the ground that the First Claim merely lumps

together the separate conspiracies elsewhere alleged without any allegation indicating how the separate conspiracies became a single global conspiracy. (Def. Memo. 4.) No question is raised as to the sufficiency of the pleading of the discrete conspiracies in the other claims.

Plaintiffs respond that the complaints "allege that all of the defendants were conspirators who intended to prevent the States from obtaining consumer-demanded insurance coverages." (Unified Opp. 106.) Plaintiffs' theory is that because "the conspiracies alleged are linked by a common purpose, by overlapping defendants and by interconnected acts," a jury could find a single global conspiracy among all the participants in the separate conspiracies. (*Id.* at 109-10.)

A conspiracy is a combination of two or more persons acting in concert to accomplish a common unlawful purpose. A coconspirator need not know the identity of all other conspirators or the full extent of the conspiracy. *E.g., United States v. Metropolitan Enterprises, Inc.*, 728 F.2d 444, 450-51 (10th Cir. 1984). But there must be a common agreement and understanding. Mere identity of purpose, interconnected events, and shared participants, on which plaintiffs base their claim, do not link separate conspiracies into one overall, single conspiracy. (*See* Unified Opp. 110-12.) For separate activities to result in a single conspiracy, the allegations and proof must reflect a wheel and spoke arrangement in which a single person at the hub implements the conspiracy by a series of arrangements with others to carry out the purpose of their conspiracy. *See, e.g., United States v. Levine*, 546 F.2d 658, 662-63 (5th Cir. 1977). But such separate activities, even if for a common purpose, do not constitute a conspiracy "without the rim of the wheel to enclose the spokes." *Kotteakos v. United States*, 328 U.S. 750, 755, 66 S.Ct. 1239, 1243, 90 L.Ed. 1557 (1946). There must be a connection among all the alleged participants sufficient to support a finding that they had entered into the

alleged conspiracy. *Id.* at 754, 66 S.Ct. at 1242. *See also Pinhas v. Summit Health, Ltd.*, 880 F.2d 1108 (9th Cir. 1989) ("Pinhas alleges . . . that as a result of his refusal to sign the 'sham' contract, appellees entered into *a* conspiracy . . . to suspend and terminate his medical staff privileges . . . and to have the report of his termination disseminated. . . .") (emphasis added).

Plaintiffs have made no attempt to show the existence of such a connection to support a finding of a single overall conspiracy, and the allegations of the complaint would not permit proof of one. They allege a number of different conspiracies having different members and different subject matter. For example, the Fifth Claim of the Second Wave Complaints charges some defendants, some of whom are not named elsewhere, with having conspired to restrict the terms under which property insurance and reinsurance would be provided for North American risks. Property insurance has not been alleged to have a connection with CGL insurance or with the market in which CGL insurance is sold. Thus, if all of the facts alleged in the complaint were proved at trial, a conspiracy verdict against these defendants under the First Claim could not stand. The motion of these defendants to dismiss the First Claim of the Second Wave Complaints must therefore be granted.[23]

E. SUBJECT MATTER JURISDICTION AND COMITY

The defendants named in the Sixth and Eighth Claims of the First Wave Complaints and the Fourth and Fifth Claims of the Second Wave Complaints[24] have moved to dismiss those claims for lack of subject matter jurisdic-

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[23] At the hearing, the remaining defendants joined in this motion. No objection having been made, this claim will be dismissed against all defendants.

[24] These claims will be referred to collectively as the Sixth Claim and the Eighth Claim, respectively.

tion or on the basis of international comity.[25] The motion is based on the Foreign Trade Antitrust Improvements Act of 1982, Pub. L. No. 97-290, 96 Stat. 1246 ("FTAIA"), and on the doctrine of international comity as stated in *Timberlane Lumber Co. v. Bank of America*.[26]

The following allegations are relevant:

In the Fifth Claim, plaintiffs allege that the defendant London reinsurers agreed to restrict the terms on which reinsurance would be written and to refuse to reinsure risks written on the occurrence form or "long-tail" risks. They allege agreements among defendants, coercion and intimidation of primary insurers to use the claims-made form and reject the occurrence form, and coercion and intimidation of individuals who might communicate with regulatory bodies. (Conn.Compl't ¶¶ 91, 93, 127-128; Cal. Compl't ¶¶ 87, 89, 133-134.) As a result, it is alleged that occurrence liability has become unavailable for many risks and the price of such coverage has increased. (Conn. Compl't ¶ 129; Cal. Compl't ¶ 135.)

In the Sixth Claim, plaintiffs allege that, at a meeting in London, the defendant London reinsurers and one reinsurance broker agreed that all North American casualty reinsurance treaties would be written with a pollution exclusion (Conn.Compl't ¶ 99; Cal. Compl't ¶ 95) lessening the availability and affordability of pollution liability coverage from primary insurers throughout the United States (Conn.Compl't ¶ 97; Cal. Compl't ¶ 93).

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[25] At the hearing these defendants asked that their motion be treated as encompassing also the Fifth Claim of the First Wave Complaints and the Third Claim of the Second Wave Complaints (collectively referred to as the Fifth Claim). No objections having been made, the issues having been fully briefed, and in the absence of prejudice to plaintiffs, this request is granted.

[26] *Timberlane Lumber Co. v. Bank of America, N.T. & S.A.*, 549 F.2d 597, 614 (9th Cir.1976) (*"Timberlane I"*), *on remand*, 574 F.Supp. 1453 (N.D.Cal.1983), *aff'd*, 749 F.2d 1378 (9th Cir.1984) (*"Timberlane II"*), *cert. denied*, 472 U.S. 1032, 105 S.Ct. 3514, 87 L.Ed.2d 643 (1985).

In the Eighth Claim, plaintiffs allege that a group of London retrocessional reinsurers, including the seven named defendants, agreed in 1987 to boycott retrocessional reinsurance treaties which included coverage for North American property risks, unless the original insurance coverage contained a seepage, pollution, and contamination exclusion clause. (Conn.Compl't ¶ 138(b); Cal.Compl't ¶ 149(b).) As a result, seepage and pollution coverage has been excluded from policies on American risks, and prices for such coverage have been increased. (Conn.Compl't ¶ 139; Cal.Compl't ¶ 150.)

(1) *The Factual Background*

The London insurance markets in which the defendants named in the Fifth, Sixth, and Eighth Claims conduct their reinsurance and retrocessional reinsurance business are composed of underwriters at Lloyd's of London, other London insurance firms ("London Company Market" firms), and brokers who obtain coverage in these markets. *See, e.g., Edinburgh Assurance Co. v. R.L. Burns Corp.*, 479 F.Supp. 138, 144 (C.D. Cal. 1979), *aff'd in part and rev'd in part on other grounds*, 669 F.2d 1259 (9th Cir. 1982); *Syndicate 420 at Lloyd's, London v. Early American Ins. Co.*, 796 F.2d 821, 824 (5th Cir. 1986); *Travelers Indemnity Co. v. Booker*, 657 F.Supp. 280, 282-83 (D.D.C. 1987).

As described in *Edinburgh Assurance*, the purchase and sale of insurance in London takes place on the floor of the underwriting room at Lloyd's and in the offices of individual insurance companies. A Lloyd's or London Company Market agent evaluates and negotiates proposed insurance placements brought by brokers for the consideration of the syndicate of underwriters that the agent represents.[27] 479 F.Supp. at 145. A "slip" (a broker-

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[27] Underwriters at Lloyd's must be individuals trading for their own accounts. However, underwriters band together into syndicates represented by one or more underwriting agents. Department of

originated document containing the essential features of the coverage sought) is presented to each underwriter. *Id.* Because many risks are too large to be insured by just one London market participant, the broker circulates the slip among numerous underwriting agents, each of whom makes the individual decision whether to underwrite a portion of the risk. *See id.* Because the spreading of large risks in the London reinsurance and retrocessional insurance markets necessarily requires numerous subscribers (*see* Conn.Compl't ¶ 4(w); Cal.Compl't ¶ 28), negotiations over the terms and conditions on which risks will be accepted and insured are integral to the functioning of the market. Underwriters negotiate with brokers over the terms on which they are willing to accept a risk. Because different underwriters may be willing to accept a particular risk on different terms, brokers and underwriters may have to negotiate mutually agreeable terms and conditions on which that risk will be accepted. *See Edinburgh Assurance*, 479 F.Supp. at 145.

The sequence of insurance transactions resulting in the purchase of reinsurance and retrocessional reinsurance in the London markets begins with the purchase of primary insurance by the consumer. The primary insurer in the United States may then elect to reinsure some portion of the portfolio of risks it has underwritten. (Conn.Compl't ¶ 4(p); Cal.Compl't ¶ 26.) The form of reinsurance most pertinent to these cases is known as "treaty" reinsurance (Cal.Compl't ¶ 27), in which the reinsurance company agrees in advance to indemnify a primary insurance company for a defined portion of the risks to be assumed by the primary carrier during the treaty period (Conn. Compl't ¶ 4(w); Cal.Compl't ¶¶ 4(p), 27). As a participant in a reinsurance treaty, a reinsurer does not deal directly with primary insurance consumers or individual

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the Treasury, Report to Congress on the Taxation of Income Earned by Members of Insurance or Reinsurance Syndicates 5-6 (February, 1989).

risks and may never know the identity of individual risks within the portfolio of risks included in the treaty. *See Excess and Casualty Reinsurance Ass'n v. Ins. Comm'r*, 656 F.2d 491, 492, 495 (9th Cir. 1981); *American Re-Insurance Co. v. Insurance Comm'r*, 527 F.Supp. 444, 453 (C.D. Cal. 1981). When the primary insurer seeks reinsurance coverage in the London market, one of several reinsurance centers, it initiates the type of reinsurance transaction which is the subject of the Sixth Claim.

Reinsurers also purchase reinsurance. This step in the sequence of reinsurance transactions, and the one which is the subject of the Eighth Claim, may occur in the London market for retrocessional reinsurance. Retrocessional reinsurance means reinsurance of the business written by reinsurers. (*See also* Conn.Compl't ¶ 4(r); Cal.Compl't ¶ 107.) Plaintiffs' Eighth Claim refers to the so-called LMX market which consists of those retrocessional reinsurers who specialize in providing retrocessional reinsurance for Lloyd's of London and the London Company Market firms. (Conn. Compl't ¶ 111; Cal.Compl't ¶ 107.) At this level, the purchaser of retrocessional reinsurance is a Lloyd's or London Company Market reinsurer.

(2) *Subject Matter Jurisdiction*

By virtue of the FTAIA, the Sherman Act does "not apply to conduct involving trade or commerce (other than import trade or import commerce) with foreign nations . . ." unless that conduct has a "direct, substantial, and reasonably foreseeable effect" on commerce within the United States, import trade into the United States, or export trade engaged in by a person within the United States. 15 U.S.C. § 6a.

Plaintiffs contend that the conduct alleged involved agreements to restrain the provision of reinsurance for American risks, and hence the import into the United States of insurance services. These allegations are sufficient to invoke the import exception of the FTAIA.

Defendants contend that the FTAIA applies nevertheless because the conduct complained of in these claims is wholly foreign commerce. The subject matter of the alleged agreement, however, concerned the provision of reinsurance within the United States, and the allegations of effects in United States markets are sufficient to preclude a characterization of wholly foreign commerce.

The First Wave Complaints allege that the London market is one of the three principal markets for the supply of reinsurance (Cal.Compl't ¶ 29), and all complaints allege that the agreements made in the London market had the effect of limiting the ability of primary insurers to obtain reinsurance except on certain terms, and for a higher price (Conn.Compl't ¶¶ 97, 100, 134, 139; Cal.Compl't ¶¶ 138, 140, 148, 150). The complaints further allege that the availability of primary coverage hinges on the primary insurers' ability to obtain reinsurance of risks (Conn.Compl't ¶ 4(p); Cal.Compl't ¶ 34), and that the availability of reinsurance hinges on the availability of retrocessional reinsurance (Conn.Compl't ¶¶ 110, 114; *see* Cal.Compl't ¶ 150). Thus, plaintiffs have adequately alleged that a decision not to provide reinsurance or retrocessional reinsurance to cover certain types of risks in the United States has a direct effect on the availability of primary insurance in the United States. *Cf. McGlinchy v. Shell Oil Co.*, 845 F.2d 802, 815 (9th Cir. 1988) (no direct, substantial, and reasonably foreseeable effect on United States commerce where agreements involved orders for products in South East Asia and other areas outside the United States). Therefore, the FTAIA does not apply.

Where the FTAIA does not apply, the Court must determine whether it has subject matter jurisdiction under the analysis in *Timberlane I:* (1) whether the alleged restraint affected or was intended to affect the foreign commerce of the United States, and (2) whether

it is a cognizable violation of the Sherman Act.[28] 549 F.2d at 615. The allegations that establish a direct effect in the United States are sufficient to establish this Court's subject matter jurisdiction under *Timberlane I.*

(3) *International Comity*

Regardless of whether subject matter jurisdiction exists, this Court may determine that its jurisdiction under the antitrust laws should not be exercised on the ground of international comity. *See Timberlane I*, 549 F.2d at 613-14.[29] This issue is properly raised and disposed of by

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[28] There is some uncertainty whether the *Timberlane* analysis for extraterritorial application of the antitrust laws has been superseded by the FTAIA. It is arguable that the FTAIA codifies the standard for determining whether there is extraterritorial jurisdiction for all cases, not only for those cases involving non-import trade. *See* P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 236, at 235 (Supp.1988) ("The most interesting question about the new statute is whether its standard for appraising export restraints differs from that for appraising import restraints or whether it merely 'codifies' a general understanding of when American antitrust should be concerned about restraints abroad that might affect United States interests only indirectly, insubstantially, or unforeseeably."); Hawk, *International Antitrust Policy and the 1982 Acts: The Continuing Need for Reassessment*, 51 Fordham L.Rev. 201, 222 (1982) ("[i]t is . . . not clear whether the specific effect test set forth in the Act is limited to determining whether export transactions of purely foreign transactions have the requisite effect on United States trade. The test might also be used in determining whether *import* transactions . . . have the requisite effect on United States trade.") See also the dictum in *McGlinchy*, 845 F.2d at 813 n. 8, that the FTAIA was passed "[i]n an effort to provide a single standard for the issue of extraterritorial application of the Sherman Act." In that case, however, the FTAIA clearly applied because export and foreign transactions were involved.

Until there is a clearer indication that *Timberlane I* no longer controls, however, this Court must follow it.

[29] The legislative history of the FTAIA states that "[i]f a court determines that the requirements for subject matter jurisdiction

a Rule 12(b)(1) motion so long as the merits of plaintiffs' antitrust claims are not reached. *Timberlane II*, 749 F.2d at 1382.

Timberlane I established a rule of reason controlling the extraterritorial application of the antitrust laws. It requires an analysis of whether, as a matter of international comity and fairness, extraterritorial jurisdiction should be asserted. *Timberlane I*, 549 F.2d at 615.

This analysis is governed by seven factors:

> [T]he degree of conflict with foreign law or policy, the nationality or allegiance of the parties and the locations or principal places of business of corporations, the extent to which enforcement by either state can be expected to achieve compliance, the relative significance of effects on the United States as compared with those elsewhere, the extent to which there is explicit purpose to harm or affect American commerce, the foreseeability of such effect, and the relative importance to the violations charged of conduct within the United States compared with conduct abroad.

Id. at 614. Each of these seven factors, discussed below, must be balanced in every case. *Timberlane II*, 749 F.2d at 1383 n. 3; *see also Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1395 (9th Cir. 1985) (applying *Timberlane* factors to extraterritorial application of the Lanham Act); *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428-29 (9th Cir. 1977) (same). The object of this analysis is to determine whether "the contacts and interests of the United States are sufficient to

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are met, this bill would have no effect on the courts' ability to employ notions of comity, *see, e.g., Timberlane Lumber Co. v. Bank of America*, 549 F.2d 1287 (3rd Cir.1979) [sic]." H.R.Rep. No. 97-686 at 13 (1982), *reprinted in* 1982 U.S.Code Cong. & Admin.News at 2431, 2487, 2498.

support the exercise of extraterritorial jurisdiction." *Timberlane I*, 549 F.2d at 614-15.[30]

(a) Degree of Conflict With Foreign Law or Policy

The London reinsurance and retrocessional reinsurance business, the subject of these claims, takes place in a regulatory and competitive framework established by the British government. In 1870, Parliament, by the Lloyd's Act, established the Society of Lloyd's and empowered it to regulate the marketplace composed of its members. The Lloyd's governing body continues to be empowered to exercise quasi-governmental authority in regulating the activities of its members. Lloyd's Acts, 1870-1982. The London Company Market companies are incorporated in the United Kingdom in accordance with the Companies Act, 1985, are regulated by the Insurance Companies Act, 1982, and associated regulations, and are supervised by the British Department of Trade and Industry. Agreements among British insurers, reinsurers, and retrocessional reinsurers (including both Lloyd's and London Company Market underwriters) relating to the provision of insurance services are expressly exempted from British regulation of anti-competitive agreements. *See* Restrictive Trade Practices (Services) Order 1976, S.I. 1976 No. 98, Schedule ¶ 8.

Plaintiffs argue that, because the Treaty of Rome of 1957, which governs trade regulation in the European

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[30] *Timberlane* has been criticized for requiring courts to balance American and foreign interests which they are not equipped or qualified to do. *Laker Airways Ltd. v. Sabena, Belgian World Airlines*, 731 F.2d 909, 948-50 (D.C.Cir.1984) (substantial limits on court's ability to conduct balancing); Aldisert, *Federal Courts and Extraterritorial Antitrust Law: Enlightened Self Interest or Yankee Imperialism?*, 5 J.L. & Com. 415, 419-20, 426-29 (1985) (courts unaccustomed to evaluating interests of other nations); Note, *Forum Non Conveniens and the Extraterritorial Application of United States Antitrust Law*, 94 Yale L.J. 1693 (1985) (courts poorly equipped). Its authority in this circuit, however, remains unimpaired.

Economic Community, is part of the law of England, *In re Westinghouse Uranium Contract* [1978] A.C. 547, 564, there is no conflict with English law or policy. Article 85 of the treaty prohibits

> all agreements . . . and concerted practices . . . which have as their object and effect the prevention, *restriction* or distortion *of competition within the common market* and in particular those which: (a) . . . fix purchase or selling prices or any other trading condition; [or] (b) limit or control production, markets, technical development, or investments. . . .

(Emphasis added.) Article 85 has been held to outlaw restrictive practices in the insurance industry notwithstanding its regulation by the state in which it is located. *Verband der Sachversicherer eV v. E.C. Commission*, 4 Common Mkt.Rep. (CCH) 264 (1988). Article 85, plaintiffs contend, establishes that enforcement of American antitrust law is consistent with applicable foreign law.

It seems doubtful, however, that this Article would be applied to outlaw long-standing practices in the London reinsurance market, openly conducted in conformity with English law. Moreover, the Treaty of Rome by its terms applies only to trade between member states, not to trade with a non-member such as the United States, and Article 85 applies only to restriction of competition within the common market.

With respect to the relevant United States-English trade, the evidence of conflict between the antitrust laws and English law and policy is substantial. English courts have repeatedly expressed unmitigated hostility to the extraterritorial application of American antitrust laws. *See In re Westinghouse Uranium Contract*, 1978 A.C. 547, 591 (counsel for the government), 616 (Judgement of Lord Wilberforce), 639 (Judgement of Lord Diplock), 650 (Judgement of Lord Fraser of Tullybelton); *British Nylon Spinners, Ltd. v. Imperial Chemical Industries,*

Ltd., [1952] 2 All E.R. 780 (CA), (LEXIS, Enggen library, Cases file at 10) (Judgement of Sir Evershed, M.R.). *See also Laker Airways Ltd. v. Sabena, Belgian World Airlines*, 731 F.2d 909, 946 (D.C. Cir. 1984).

An English "blocking" statute restricts the availability of evidence and production of documents for use in judicial proceedings in the United States. Protection of Trading Interests Act, 1980, ch. 11, § 2, *reprinted in* Antitrust & Trade Reg.Rep. (BNA) No. 959, at F-1; *see* Note, *Power to Reverse Foreign Judgments: The British Clawback Statute Under International Law*, 81 Colum.L.Rev. 1097, 1106-09 (1981) (describing the blocking provision of the Protection of Trading Interests Act). The Protection of Trading Interests Act provides a remedy to English antitrust defendants to recover from plaintiffs the punitive portion of a foreign multiple damage judgment against them where the foreign judgment concerns activities outside the enforcing nation's territory.[31] Protection of Trading Interests Act, *supra*, at § 6; *see* Note, 81 Colum.L.Rev. at 1109-13 (describing section 6 of the Act). This Act has been applied several times notwithstanding the Treaty of Rome. *See* Cira, *The Challenge of Foreign Laws to Block American Antitrust Actions*, 18 Stan. J. Int'l L. 247, 251-52 & n. 29 (1982) (between its passage and 1982, the Act applied to issuance of directives barring compliance with American orders, some of which involved U.K. subsidiaries of U.S. parents).

On balance, the Court concludes that enforcement of the antitrust laws against activities in the London reinsurance market would lead to significant conflict with English law and policy. This conflict, unless outweighed

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[31] This ("clawback") provision was aimed at the "pernicious extraterritorial effect doctrine" of American antitrust law. 973 Parl. Deb., H.C. (5th Series) 1535 (1979). It also reflects a view that multiple damages are penal and should be imposed only in proceedings incorporating the protections of criminal proceedings. *See* Note, 81 Colum.L.Rev. at 1103-04.

by other factors in the comity analysis, is itself a sufficient reason to decline exercise of jurisdiction. *Timberlane II*, 749 F.2d at 1384.

(b) The Nationality or Allegiance of the Parties and the Locations of Principal Places of Business of Corporations

All plaintiffs are located in the United States. Although all defendants named in the Fifth, Sixth, and Eighth Claims are located in England and are of English nationality, many of the corporate defendants are subsidiaries of American corporations and may be influenced by the allegiance of their American parents.[32] But it is also true that adjudication of this claim would require the testimony of witnesses and the production and analysis of documents located in England. *See Timberlane II*, 749 F.2d at 1384; *Star-Kist*, 769 F.2d at 1396.

On balance this factor weighs against the exercise of jurisdiction.

(c) The Extent to Which Enforcement by Either State Can Be Expected to Achieve Compliance

A number of barriers stand in the way of enforcement of any judgment against these defendants by English courts. Those courts have previously refused to aid in the enforcement of the judgment of an American court where that court had exercised what the English court considered unlawful extraterritorial jurisdiction. *See British Nylon Spinners, Ltd. v. Imperial Chemical Indus-*

[32] Note that England, however, does not recognize the extraterritorial application of the laws of the parent corporation's state based on the parent's control of the subsidiary. Note, 81 Colum. L.Rev. at 1100-01. English authorities, moreover, take the position that, in any event, the laws and policies of the territorial state must be accorded primacy. *See* Griffin, *Possible Resolutions of International Disputes Over Enforcement of U.S. Antitrust Law*, 18 Stan. J. Int'l L. 279, 286 (1982).

tries, Ltd., 1 Ch. 19 (1953); 1 Ch. 37 (1955); *see also* the discussion at section V.E.(3)(b), *supra*.

Plaintiffs could collect a judgment by enforcing it against such assets of defendants as may be found in the United States. But it is improbable that there could be enforcement of the requested injunctive relief against activities in London. Indeed, the Protection of Trading Interests Act allows the British Secretary of State for Industry to forbid British nationals from complying with foreign antitrust judgments. Protection of Trading Interests Act, *supra*, at § 1; *see* Note, 81 Colum.L.Rev. at 1104-06.

Thus this factor tips slightly against the exercise of jurisdiction.

(d) The Relative Significance of Effects on the United States as Compared With Those Elsewhere

This factor requires a comparison of the effect of the alleged illegal conduct on the commerce of the United States with its effect abroad. *Timberlane II*, 749 F.2d at 1384.

Plaintiffs allege that half of the reinsurance business covers North American risks. (Conn.Compl't ¶ 4(h); Cal.Compl't ¶ 4(t).) There are no allegations showing what percentage of those risks involved reinsurance for CGL policies covering risks within the United States. And there are no allegations with respect to the relative effects of retrocessional reinsurance agreements. It is clear, however, that the conduct of defendants had a sufficiently significant effect in the United States to make this factor weigh in favor of the exercise of jurisdiction.

(e) The Extent to Which There is Explicit Purpose to Harm or Affect United States Commerce

As in *Timberlane II*, the conduct of defendants complained of in these claims was directed primarily at re-

ducing their exposure to certain risks and controlling losses, a legitimate business purpose. Their actions (as described in section V.E.(1) *supra*) were "consistent with [local] customs and practices." *Timberlane II*, 749 F.2d at 1385. The allegations of the complaints that defendants' purpose was to restrict the availability of certain types of CGL coverage (Conn.Compl't ¶¶ 132, 137; Cal. Compl't ¶¶ 138, 148) is not inconsistent with the existence of a legitimate business purpose for their actions.

This factor, therefore, weighs against the exercise of jurisdiction.

(f) Foreseeability of Such Effect

Defendants concede that the factor of foreseeability of the effect in the United States of their conduct weighs in favor of the exercise of jurisdiction. (Def.Memo. 23.)

(g) The Relative Importance to the Violation Charged of Conduct Within the United States as Compared with Conduct Abroad

The conduct of the defendant reinsurers or retrocessional reinsurers alleged in the Sixth and Eighth Claims is not alleged to have occurred within the United States. Some of the conduct alleged in the Fifth Claim, however, allegedly occurred in the United States. Defendants are alleged to have coerced primary insurers and to have communicated with others to bring about rejection of the occurrence form. Thus relevant conduct occurred within the United States, but its genesis lay in the alleged agreements among the participants in the London market and its purpose was to further those agreements. The alleged activities in the United States are an incident of the market agreement which is the gravamen of the action.

Although the activities within the United States are not insignificant, their significance derives from the alleged foreign agreements. In those circumstances, this factor must be considered as neutral.

(h) Conclusion

The foregoing analysis leads to the conclusion that the conflict with English law and policy which would result from the extra-territorial application of the antitrust laws in this case is not outweighed by other factors. Although the conduct complained of had effects within the United States, it is not alleged to have excluded competitors from markets or denied consumers access to markets, and it is not alleged to have occurred for that purpose.

The pendent state law claims assert claims similar to those arising under the federal antitrust laws. To the extent that they are based on the conduct alleged in the Fifth, Sixth, and Eighth Claims, they should be dismissed for the same reasons. *See United Mine Workers of America v. Gibbs*, 383 U.S. 715, 727, 86 S.Ct. 1130, 1139, 16 L.Ed.2d 218 (1966); *Salveson v. Western States Bankcard Ass'n*, 731 F.2d 1423, 1430 (9th Cir. 1984).

VI. CONCLUSION

Subsequent to the issuance of this ruling, plaintiffs for the first time asked for leave to amend their complaints. The Court has examined Attachment A to plaintiffs' memorandum to vacate judgment or for leave to amend or permit discovery, setting forth the substance of the proposed amendments. Nothing in that attachment would affect the grounds for the Court's ruling. The plain fact is that plaintiffs seek to recover on a theory that, as heretofore explained at length, will not stand under the law.

For the same reason, plaintiffs' discovery request must be denied. That request is based on rather unprofessional assertions to the effect that the Court criticized or faulted the states for not producing evidence or taking discovery and on a misrepresentation of the Court's ruling. (Plf. Memo. 12.) The States have conducted investigations into the subject matter of these actions for some two years,

with all the investigatory powers available to sovereign governments. They were given the right under the pretrial order to conduct discovery relevant to the issues raised by defendants' motions. They are represented by numerous attorneys expert in the antitrust laws. The Court must conclude that the allegations they made in their complaints and the facts they proffered in opposition to the motions represent their best effort—and nothing indicates the contrary.

The Court's ruling accepts the facts alleged in plaintiffs' complaints and their opposition to the motions, and it rests on those facts. There are no factual disputes material to this ruling, which simply applies the law to those facts.

For the reasons stated, judgment will be entered for all defendants dismissing the federal claims in these actions in accordance with the foregoing ruling. The pendent state claims will be dismissed for lack of subject matter jurisdiction, except as otherwise ordered.

IT IS SO ORDERED.

APPENDIX

Actions in MDL Docket 767
Insurance Antitrust Litigation

88-0981
State of California, et al. v. Hartford Insurance Company, Aetna Casualty and Surety Company, CIGNA Corporation, Insurance Services Office, Inc., Peter N. Miller, Robin A.G. Jackson, Merret Underwriting Agencies Mgt., Ltd., Three Quays Underwriting Ltd., Janson, Green, Ltd., Edwards and Payne Management (U.A.), Ltd., C.J. Warrilow-Hine & Butcher, Ltd., J. Brian Hose & Others, Ltd., Harvey Bowring, Ltd.—Murray Lawrence & Partners, K.F. Alder & Others, (U.A.) Ltd., Unionamerica Insurance Co., Ltd.

88-0983
State of New York, et al. v. Hartford Fire Insurance Company, et al.

88-0984
Commonwealth of Massachusetts, et al. v. Hartford Fire Insurance Company, et al.

88-0985
State of Minnesota, et al. v. Hartford Fire Insurance Company, et al.

88-0986
State of West Virginia, et al. v. Hartford Fire Insurance Company, et al.

88-0987
State of Wisconsin v. Hartford Fire Insurance Company, et al.

88-0988
State of Alabama, et al. v. Hartford Fire Insurance Company, et al.

88-1009
State of Arizona, et al. v. Hartford Fire Insurance Company, et al.

88-1318
Big D Building Supply Corp. v. Hartford Fire Insurance Company, et al.

88-1492
Anastasios Markos T/A v. Hartford Fire Insurance Company, et al.

88-1587
Bay Harbor Park Homeowner's Association, Inc. v. Aetna Casualty

88-2327
State of Maryland v. Hartford Fire Insurance Company, et al.

88-2328
State of Washington, et al. v. Hartford Fire Insurance Company, et al.

88-2329
State of New Jersey v. Hartford Fire Insurance Company, et al.

88-2330
State of Colorado v. Hartford Fire Insurance Company, et al.

88-2331
State of Ohio, et al. v. Hartford Fire Insurance Company, et al.

88-2332
State of Connecticut v. Hartford Fire Insurance Company, et al.

88-2333
Commonwealth of Pennsylvania, et al. v. Hartford Fire Insurance Company, et al.

88-2334
State of Alaska, et al. v. Hartford Fire Insurance Company, et al.

88-2335
State of Montana v. Hartford Fire Insurance Company, et al.

88-2341
State of Michigan, et al. v. Hartford Fire Insurance Company, et al.

88-2569
Environmental Aviation Sciences, Inc. v. Hartford Fire Insurance Company, et al.

88-3662
Carlisle Day Care Center, Inc. v. Hartford Fire Insurance Company, et al.

88-3673
Discount Plywood Centers, Inc. v. CIGNA Corporation, et al.

88-3674
Acme Corrugated Box Co. v. CIGNA Corporation, et al.

88-3677
P & J Casting Corp. v. Hartford Fire Insurance Company, et al.

88-3792
Henry L. Rosenfeld v. Hartford Fire Insurance Company, et al.

88-3793
Ace Check Cashing, Inc. v. Hartford Fire Insurance Company, et al.

88-4538
Glabman Paramount Furniture Mfg. Co., Inc. v. CIGNA Corporation, et al.

88-4560
Durawood, Inc. v. CIGNA Corporation, et al.

88-4561
Bensalem Township Authority v. CIGNA Corporation, et al.

88-4562
Keyboard Communications, Inc. v. CIGNA Corporation, et al.

88-4564
Carmella M. "Boots" Liberto v. Hartford Fire Insurance Company, et al.

88-4799
Les-Ray Bobcat, Inc., et al. v. Hartford Fire Insurance Company, et al.

88-4800
Jerry Grant Chemical Associates, Inc. v. Hartford Fire Insurance Company, et al.

89-1131
State of Louisiana, et al. v. Hartford Fire Insurance Company, et al.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

In re: INSURANCE ANTITRUST LITIGATION

No. 89-16405

DC# CV-88-1688-WWS

ACE CHECK CASHING, INC.; ACME CORRUGATED BOX COMPANY, INC.; ANASTASIOS MARKOS, t/a Municipal Exxon; BAY HARBOR PARK HOMEOWNER'S ASSOCIATION, INC.; BENSALEM TOWNSHIP AUTHORITY; BIG D BUILDING SUPPLY CORPORATION, *et al.*,
Private Plaintiffs,
Plaintiffs-Appellants,

and

STATE OF ALABAMA *et al.*,
Plaintiffs,

vs.

AETNA CASUALTY AND SURETY COMPANY; ALLSTATE INSURANCE COMPANY; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY, *et al.*,
Defendants-Appellees.

No. 89-16405

DC# CV-88-1688-WWS

STATE OF CALIFORNIA; CITY OF LAFAYETTE, CITY AND COUNTY OF SAN FRANCISCO; COUNTY OF SAN BENITO,
Plaintiffs-Appellants,

and

STATE OF ALABAMA *et al.*,
Plaintiffs,

vs.

AETNA CASUALTY AND SURETY COMPANY; ALLSTATE INSURANCE COMPANY; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY, *et al.*,
Defendants-Appellees.

No. 89-16513

DC# CV-88-0981-WWS

STATE OF CALIFORNIA; CITY OF LAFAYETTE; CITY AND COUNTY OF SAN FRANCISCO; COUNTY OF SAN BENITO,
Plaintiffs-Appellants,

vs.

INSURANCE SERVICES OFFICE, INC., CMA RE (U.K.) Ltd.; CONTINENTAL REINSURANCE CORPORATION; UNION-AMERICA INSURANCE CO.; EDWARDS & PAYNE Ltd.; EXCESS INSURANCE CO., Ltd.; GENERAL REINSURANCE CORP.; THOMAS A. GREENE & COMPANY, Inc.; KEMPER REINSURANCE LONDON; LLOYD'S UNDERWRITERS & BROKERS; MERCANTILE & GENERAL REINSURANCE COMPANY OF AMERICA; NORTH AMERICAN REINSURANCE CORPORATION; OXFORD SYNDICATE MGMT. Ltd.; (sued herein as K.F. Adler & Others (U.A.) Ltd.); PRUDENTIAL REINSURANCE; REINSURANCE ASSOCIATION OF AMERICA; TERRA NOVA INSURANCE CO.; AETNA CASUALTY AND SURETY COMPANY; ALLSTATE INSURANCE COMPANY; WINTERTHUR REINSURANCE CORPORATION OF AMERICA; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY,
Defendants-Appellants.

No. 89-16514

DC# CV-88-0983-WWS

STATE OF NEW YORK; ROOSEVELT ISLAND OPERATING AUTHORITY; VILLAGE OF GROTON; VILLAGE OF LAKE SUCCESS,
Plaintiffs-Appellants,

vs.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

No. 89-16515

DC# CV-88-0984-WWS

COMMONWEALTH OF MASSACHUSETTS; TOWN OF HANOVER; TOWN OF MILFORD,
Plaintiffs-Appellants,

vs.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

No. 89-16516

DC# CV-88-0985-WWS

STATE OF MINNESOTA,
Plaintiff-Appellant,

vs.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

No. 89-16517

DC# CV-88-0986-WWS

STATE OF WEST VIRGINIA; CITY OF CLAY; COUNTY OF HANCOCK; COUNTY OF MINERAL; COUNTY OF WIRT,
Plaintiffs-Appellants,

vs.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

No. 89-16518

DC# CV-88-0987-WWS

STATE OF WISCONSIN,
Plaintiff-Appellant,

vs.

HARTFORD FIRE INSURANCE COMPANY; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; ALLSTATE INSURANCE; *et al.*,
Defendants-Appellees.

No. 89-16519

DC# CV-88-0988-WWS

CITY OF MOBILE; STATE OF ALABAMA; CITY OF BIRMINGHAM,
Plaintiffs-Appellants,

vs.

AETNA CASUALTY AND SURETY COMPANY; WINTERTHUR REINSURANCE CORPORATION OF AMERICA; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE,
Defendants-Appellees.

No. 89-16520

DC# CV-88-1009-WWS

STATE OF ARIZONA,
Plaintiff-Appellant,

vs.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16521

DC# CV-88-2327-WWS

STATE OF MARYLAND,
Plaintiff-Appellant,

vs.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16522

DC# CV-88-2328-WWS

STATE OF WASHINGTON; COUNTY OF COWLITZ,
Plaintiffs-Appellants,

vs.

HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16523

DC# CV-88-2329-WWS

STATE OF NEW JERSEY,
Plaintiff-Appellant,
vs.
HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appelees.

No. 89-16524

CV-88-2330-WWS

STATE OF COLORADO,
Plaintiff-Appellant,
vs.
WINTERTHUR REINSURANCE CORPORATION OF AMERICA; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE, *et al.*,
Defendants-Appellees.

No. 89-16525

DC# CV-88-2331-WWS

STATE OF OHIO; TOWNSHIP OF JACKSON; COUNTY OF HARDIN,
Plaintiffs-Appellants,
vs.
HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16526

DC# CV-88-2332-WWS

STATE OF CONNECTICUT,
Plaintiff-Appellant,
vs.
HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16527

DC# CV-88-2333-WWS

COMMONWEALTH OF PENNSYLVANIA; COUNTY OF SCHUYKILL; CITY OF ALTOONA; CITY OF YORK; BOROUGH OF CHAMBERSBURG,
Plaintiffs-Appellants,
vs.
HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16528

DC# CV-88-2334-WWS

STATE OF ALASKA,
Plaintiff-Appellant,
vs.
HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16529

DC# CV-88-2335-WWS

STATE OF MONTANA; COUNTY OF TETON,
Plaintiffs-Appellants,
vs.
HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16530

DC# CV-88-2341-WWS

STATE OF MICHIGAN,
Plaintiff-Appellant,
vs.
HARTFORD FIRE INSURANCE COMPANY; ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

No. 89-16531

DC# CV-88-1131-WWS

STATE OF LOUISIANA, CITIES OF BATON ROUGE, NEW ORLEANS, SLIDELL, NACHITOCHES and EUNICE,
Plaintiff-Appellant,
vs.
HARTFORD FIRE INSURANCE COMPANY, ALLSTATE INSURANCE; AETNA CASUALTY AND SURETY COMPANY; CIGNA CORP.; *et al.*,
Defendants-Appellees.

[Filed October 15, 1991]

Before: BEEZER, and NOONAN, Circuit Judges, SINGLETON,* District Judge

The panel as constituted in the above case has voted to deny the petition for rehearing. Judges Beezer and Noonan have voted to reject the suggestion for rehearing en banc and Judge Singleton expresses no opinion regarding the suggestion for rehearing en banc.

The full court has been advised of the suggestion for en banc rehearing, and no judge of the court has requested a vote on the suggestion for rehearing en banc. Fed. R. App. P. 35(b).

The petition for rehearing is denied, and the suggestion for a rehearing en banc is rejected.

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* The Honorable James K. Singleton, United States District Judge for the District of Alaska, sitting by designation.

APPENDIX D

1. The Sherman Act, 15 U.S.C. §§ 1 *et seq.* provides in pertinent part:

§ 1. Trusts, etc., in restraint of trade illegal; penalty

Every contract, combination * * *, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal.

2. The McCarran-Ferguson Act, 15 U.S.C. §§ 1011 *et seq.*, provides in pertinent part:

§ 1011. Declaration of policy

Congress hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States.

§ 1012. Regulation by State law; Federal law relating specifically to insurance; applicability of certain Federal laws after June 30, 1948

(a) State regulation

The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulation or taxation of such business.

(b) Federal regulation

No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance: *Provided*, That after June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914,

as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State Law.

§ 1013. Suspension until June 30, 1948, of application of certain Federal laws; Sherman Act applicable to agreements to, or acts of, boycott, coercion, or intimidation

(a) Until June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, and the Act of June 19, 1936, known as the Robinson-Patman Anti-Discrimination Act, shall not apply to the business of insurance or to acts in the conduct thereof.

(b) Nothing contained in this chapter shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

APPENDIX E

Pursuant to Rule 29.1 of the Rules of this Court, the parent companies and subsidiaries (other than wholly owned subsidiaries) of each petitioner are as follows:

The parent company of the Aetna Casualty and Surety Company is Aetna Life and Casualty Company. Aetna Casualty and Surety Company has no subsidiaries that are not wholly owned.

The parent company of Allstate Insurance Company is Sears, Roebuck and Co. Allstate Insurance Company's subsidiaries that are not wholly owned are Allstate Automobile & Fire Insurance Company, Limited; Saison Life Insurance Company, Ltd.; Samshin Allstate Life Insurance Company, Ltd.; and Tramed (a Russian company).

Hartford Fire Insurance Company is a wholly owned subsidiary of ITT Hartford Group, Inc., which is a wholly owned subsidiary of ITT Corporation. Hartford Fire Insurance Company's subsidiaries that are not wholly owned are Piper Jaffrey, Inc.; ADAPT, Inc.; Redshaw, Inc.; and Thoroughbred International Insurance Company.

Constitution Reinsurance Corporation is a wholly owned subsidiary of Constitution Re Corporation, which is owned by United States Fire Insurance Company (55%), The North River Insurance Company (25%), and Westchester Fire Insurance Company (20%), which in turn are wholly owned subsidiaries of Crum and Forster, Inc.; Crum and Forster, Inc., is a wholly owned subsidiary of Xerox Financial Services, Inc., which is a wholly owned subsidiary of Xerox Corporation. Constitution Reinsurance Corporation has no subsidiaries that are not wholly owned.

The parent company of General Reinsurance Corporation is General Re Corporation. General Reinsurance Corporation has no subsidiaries that are not wholly owned.

Insurance Company of North America is a wholly owned subsidiary of INA Financial Corporation, which is a wholly owned subsidiary of INA Corporation; in turn, INA Corporation is a wholly owned subsidiary of CIGNA Holdings, Inc., which is a wholly owned subsidiary of CIGNA Corporation. Insurance Company of North America and CIGNA Corporation have no subsidiaries that are not wholly owned.

The parent company of Mercantile and General Reinsurance Company of America is the Prudential Corporation, plc. Mercantile and General Reinsurance Company has no subsidiaries that are not wholly owned.

North American Reinsurance Corporation is a wholly owned subsidiary of SwissRe Holding (N.A.) Inc., which is a wholly owned subsidiary of SwissRe Holding Limited of Zurich, Switzerland, which in turn is a wholly owned subsidiary of the Swiss Reinsurance Company. North American Reinsurance Corporation has no subsidiaries that are not wholly owned.

Prudential Reinsurance Company is a wholly owned subsidiary of PRUCO, Inc., which is a wholly owned subsidiary of The Prudential Insurance Company of America. Prudential Reinsurance Company has no subsidiaries that are not wholly owned.

The parent company of Thomas A. Greene & Co. is Alexander & Alexander Services Inc. Thomas A. Greene & Co. has no subsidiaries that are not wholly owned.